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Karel Van Miert
EC competition policy enters the real world
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Is Germany competitive?
Tightening belts in Standort Deutschland
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Attali quits as Paris offers deal on Air France jobs

Bernard Attali, chairman of Air France, resigned after the French government said it was modifying a cost-cutting plan which sparked a strike by the airline's employees. Mr Bernard Attali, transport minister, said the government could not save the airline while clashing with its employees. Page 14

Bomb threat to peace talks: The Hume-Adams initiative to end the fighting in Northern Ireland appeared doomed as UK prime minister John Major led a fierce denunciation of the Irish Republican Army bombing which killed 10 people. Ulster Unionists demanded an end to the initiative and Mr Major ruled out early dialogue with Sinn Féin, the political wing of the IRA. Page 14

General Motors backed away from confrontation with the United Auto Workers union over the weekend as it agreed to a new three-year labour deal closely echoing those reached by its Detroit rivals Ford and Chrysler. Page 4

Turnberry Underwriters, a US company being investigated by the FBI and Florida authorities, is offering to help cash-strapped companies in the UK and Ireland raise finance. Page 7

Steel warnings: EC competition commissioner Karel Van Miert has warned that Community steel prices could slump if EC industry ministers delay a restructuring vote on the Spanish, Italian and East German steel industries. Page 2

Delors moves to boost Maastricht: European Commission president Jacques Delors will today begin a campaign to breathe life into the Maastricht treaty to build up momentum ahead of Friday's special EC summit in Brussels. Page 2; Lisbon calls for ERM flexibility: The new time: what they would do, Page 2

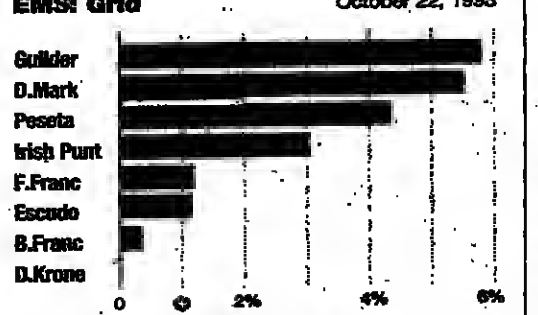
Senna reported for punching driver
Brazilian Ayrton Senna (left), winner of the Japanese grand prix at Suzuka, was reported to the race stewards for punching a fellow driver at the end of the event. Senna was described as the "stupid and unprofessional" driving of Britain's Eddie Irvine, who finished sixth in what was his first world championship event. After an argument Senna threw a punch, knocking the Northern Irishman down.

Branson buys out partner: Richard Branson has reinforced his control of his Virgin Atlantic Airways by buying out the UK airline's Japanese partner, Sabu Saison, for about £40m-£50m (\$60m-\$74m). Page 15

Budget backing: Brazilian finance minister Fernando Henrique Cardoso has won limited support from President Itamar Franco for measures to balance the country's budget. Page 5

Swedish forestry link-up: The Swedish government plans to merge its interests in three state-owned forestry groups to create one of Europe's 10 largest pulp and paper companies. Page 18

European Monetary System: The Danish krone remained at the bottom of the system at the end of the week in spite of a reduction in interest rates aimed at boosting the economy. The D-Mark remained near the top of the grid, below the Dutch guilder, but it could fall this week as investors switch funds from Germany into other European currencies and into the US dollar. Currencies, Page 27



The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the system. Most of the currencies are permitted to fluctuate within 15 per cent of agreed central rates against the other members of the mechanism. The exceptions are the D-Mark and the guilder which move in a narrow 2.25 per cent band.

Rocard promises overhaul: Michel Rocard promised an overhaul of France's Socialist party and launched an attack on the government of Edouard Balladur following his election as Socialist leader on Saturday. Page 3

Three held by extremists: The kidnapping by Algerian Islamic extremists of three employees of the French consulate-general in Algiers appeared to intensify a new campaign to force foreigners out of the country and weaken the position of the government. Page 6

Papandreou pledge on inflation: Andreas Papandreou, Greece's newly elected socialist prime minister, has diluted his opposition to privatisation and outlined a set of moderate economic policies, pledging to reduce inflation and the rapidly rising public sector deficit. Page 4

China seeks wide reforms of taxation and banking

By Alexander Nicoll and Tony Walker in Beijing

CHINA PLANS the most radical financial reforms in its post-revolution history with new tax arrangements and an extensive overhaul of the banking sector. Mr Li Lanqing, a vice-premier, said in a Financial Times interview that a Communist party central committee plenary session before the end of the year would approve a blueprint for further economic reforms. His remarks represent the most authoritative outline yet of the

next phase of China's reform programme. The reforms would be carried out in six areas: banking, finance, taxation, investment, foreign trade, and enterprise management. These measures would build on the market-oriented reforms of the Chinese system introduced over the past 15 years, which have brought a growing tide of foreign investment into the country. The latest moves would complement those made earlier this year to restrain inflation and cool the economy through, for example, credit

restrictions and interest rate increases. They would focus among other things on: ● Enhancing the regulatory and policy-making role of the People's Bank, China's central bank; ● Strengthening the archaic tax system, which the World Bank and other international institutions have been urging China to overhaul to increase revenues; ● Improving management of loss-making state enterprises, which are proving a huge drain on central government finances. The plans coincide with an intense debate within the leader-

ship over the 16-point austerity package introduced in July to curb the overheating economy. Officials are urging a loosening of credit restrictions to cope with a crisis in the cash-starved state sector, where some enterprises have almost run out of money and are unable to pay workers. Mr Li said that the authorities would make credit available to "profitable" state enterprises, and for purchases of agricultural products. But "strict control" would be maintained over money available for "overheated areas" such as real estate development.

He said that although the 1993 economic growth rate would match last year's 13 per cent, the austerity measures had brought inflation under control, reduced money supply growth and stabilised the exchange rate at a reasonable level. The vice-premier indicated that the centre-piece of new tax reforms would be the introduction of "federal style" tax-sharing arrangements. The formula would divide tax revenues between the central government and the provinces, with a portion to be shared

between the two. Under the present contract system, provinces are able to retain revenues beyond those they have "contracted" to remit to Beijing. This has meant that wealthy coastal regions, such as Guangdong province in the south, have reaped a revenue windfall while the centre has been starved of funds, weakening its control. Mr Li said that as well as strengthening the regulatory authority of the People's Bank, the reforms would involve

Continued on Page 14

Proposal aims to cut wages bill by 20%

VW plans 4-day week in Germany as sales stagnate

By Christopher Parkes in Frankfurt

VOLKSWAGEN, Europe's biggest volume car maker, plans to introduce a four-day working week in its six German plants next year with the aim of cutting its wages bill by around 20 per cent.

The proposal will be approved at a board meeting today, against a backdrop of gloomy forecasts for motor industry sales and of the company's failure to meet its target of breaking even this year.

Four-day working is almost unheard of in German industry. The fact that it is being introduced at such an important company is another indication that German trade unions are becoming increasingly amenable to flexible working practices under the influence of the worst recession since the second world war.

Although workers will work four days, the factories will continue to produce for five days a week at reduced capacity.

Chancellor Helmut Kohl, industry associations and the Bundesbank have all demanded increasing flexibility from employers and employees to stop unemployment from reaching levels that might endanger "social peace".

Unemployment in Wolfsburg, where VW is based, is at present around 13 per cent of the local workforce.

The group expects sales of

The German economy will grow by 1.5 per cent next year after shrinking by the same proportion in 1993, according to the traditional autumn forecast from the country's six leading economic institutes.

They predict a 1 per cent growth in the west and a 7 per cent rise in the east, based mainly on a recovery in trade. Report, Page 14

Volkswagen brand vehicles to stagnate in 1994 at this year's level of 1.4m vehicles, compared with 1.6m in 1993. Its Spanish workers were told last Friday that 9,000 jobs - 40 per cent of the total payroll - were to be lost at Seat, and one of the company's three factories was to be closed.

In Germany Volkswagen management is bound by an agreement with the government of Lower Saxony, its largest shareholder, and the company's workers' councils, to limit job cuts to the 18,000 agreed last winter, when Mr Ferdinand Piëch became chairman.

This forecast a domestic workforce of 100,000 by the end of 1994. However, union officials said last week that the payroll had already been reduced to 108,000, and would be down to 103,000 by the end of this year.

A nominal four-day week would allow the introduction of more flexible working and the

rapid reintroduction of longer hours if demand improved, a VW spokesman said yesterday.

The impact on incomes of a basic 20 per cent cut in the pay bill would be softened by lower tax obligations, and possibly by spreading the payment of traditional Christmas and holiday bonuses over the full 12 months, he added.

Board and senior management salaries have been frozen at VW for the next 12 months; middle-managers are to have a 2 per cent rise, while a previously agreed 3.5 per cent pay increase for "early-paid workers" will take effect on November 1.

The proposals, which are understood to have the backing of union leaders, and Mr Gerhard Schröder, the Lower Saxony prime minister, will be put formally to the workforce later this week. The project has been developed by Peter Hartz, VW's labour director since October, who has a reputation for creative solutions to unemployment problems.

Apart from market conditions, Volkswagen's employment needs are also being reduced by the efficiency improvements introduced since the arrival of the group's controversial production director, Mr José Ignacio López de Arriortua. New working methods had already boosted productivity by 23 per cent, company officials said at the weekend.



Campbell faces poll defeat

CANADA'S Progressive Conservative party is bracing itself for defeat in today's general election, ending nine years of rule.

It has been a disastrous campaign for the party's leader, prime minister Kim Campbell, pictured at a rally in British Columbia at the weekend. Her inexperience and an unconvincing

policy platform have wiped out hopes that she would erase voters' memories of her unpopular predecessor, Mr Brian Mulroney.

Polls predict that the Liberals will gain enough seats to form a majority government. Page 5; Observer, Page 13; Canadian bonds, International Capital Markets, 2nd section. AP picture

Bombs and bodyguards raise stakes in Russian banking

By Leyla Boulton in Moscow

A BOMB explodes at the central bank in the dead of night. Commercial bankers have private armies to protect themselves and their property; less fortunate colleagues have been gunned down. This is not Colombia or Sicily, but Russia.

With the collapse of the old communist order, the banks in this fledgling market economy are more than ever before a target and vehicle for fraud, money-laundering, and extortion. Although some banks are unwitting victims, others have been set up by mafia-style organisations to launder ill-gotten gains.

Until now absorbed with more basic problems, such as setting up a more efficient payments system, the Russian authorities are finally turning their attention to the need to clean up the banking sector. The central bank badly requires reforms to reduce its vulnerability to fraud.

"The real money in the country is with the banks," says Mr Sergei Rodionov, the 32-year-old chairman of Bank Imperial, whose black Buick is said to be bullet-proof. "Why should racketeers rob small stores when they can get millions of roubles from banks?"

Mr Rodionov declines to say how many people guard him and his family in addition to the 60 men who protect his bank. But

Continued on Page 14

Rowland warns Bock over future direction of Lonrho

By Roland Rudd in London

MR Roland "Tiny" Rowland, who has effectively run Lonrho, the international trading group, for more than 30 years yesterday warned Mr Dieter Bock, his joint chief executive, they were on the verge of a fight that could tear the company apart.

Mr Rowland, alternately poured scorn and vitriol on Mr Bock while insisting he wanted to avoid conflict. Mr Bock wants to turn the secretive conglomerate into a more conventional company, initially by bringing in the first non-executive directors for two decades.

Mr Bock, who owns 18.8 per cent of Lonrho, also believes its 18-member board should be slimmed down, which would probably start with the removal of executive directors of pensionable age. These include Mr Paul Spicer and Mr Robert Dunlop, supporters of Mr Rowland.

Mr Rowland said: "If Mr Bock says the pensionable directors have to go, my answer to that would be 'over my dead body'... I would say to him 'you must be stark staring mad'."

The 75-year-old entrepreneur said the removal of some of the oldest directors would give Mr

Lex...Page 14

Prizefighter goes into the ring with Bock...Page 15

Bock unfettered control of the international trading group. Mr Rowland said: "If he got rid of four or five people, Mr Bock would sell everything for cash; there would be nothing left. He would get rid of everyone, including the tea ladies."

He compared relations with Mr Bock to his long-running feud with the Fayed family over the 1985 takeover of the House of Fraser.

Following Friday's sudden end to the eight-year legal battle between Lonrho and the Fayed family, Mr Rowland said he would also like to put his disagreement with Mr Bock behind him. "I do not want it tearing Lonrho apart."

He said he had not tried to find another investor to buy the German financier's 18.8 per cent shareholding. But he said good relations between the two men depended on Mr Bock accepting the status quo on the board.

An adviser to Mr Bock said there were no immediate plans to change the board. "The main objective was to get non-executive directors appointed and

that has been achieved."

Mr Bock is understood to be delighted that the expensive and time consuming feud with the Fayed family has been ended.

The German financier has taken heart from the latest shareholder research conducted by Lonrho's stockbroker, James Capel. It shows that Mr Bock and institutional shareholders command more than 80 per cent of the stock.

Mr Rowland cast doubt on his colleague's ability to run Lonrho's businesses. He said: "Mr Bock has sold assets which we were in the process of selling. It was all agreed before he arrived. The only deal he has done is with Peter Palumbo (over redeveloping a London site) and that was not with us."

Mr Rowland said that the two men, who earlier this year described themselves as "indivisible", rarely communicated with each other. He only found out about Mr Bock's recent partnership with Lord Palumbo by reading about it in the newspapers.

For his part, Mr Rowland did not inform Mr Bock about the impending truce with the Fayed family, deciding instead to first announce it in the Harrods food hall.

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From November 1st, Singapore Airlines will offer AIR MILES awards to British Airways' Executive Club members. So when you fly Singapore Airlines First or Raffles Class, you can earn AIR MILES awards by giving your Executive Club number at reservations or check-in. If you are not already a member of Executive Club or would like further information, call Singapore Airlines on 081 747 0007 or your travel agent.

SINGAPORE AIRLINES

Area	Score	Area	Score	Area	Score	Area	Score
Africa	50.00	Green	100.00	Lat	100.00	Other	100.00
Asia	50.00	Hong Kong	100.00	Malta	100.00	S. Africa	100.00
Belgium	50.00	Hungary	100.00	Malta	100.00	Singapore	100.00
Bulgaria	50.00	Ireland	100.00	Malta	100.00	South Africa	100.00
Czech Rep	50.00	India	100.00	Malta	100.00	Spain	100.00
Denmark	50.00	Italy	100.00	Malta	100.00	Sweden	100.00
France	50.00	Japan	100.00	Malta	100.00	Switzerland	100.00
Germany	50.00	Poland	100.00	Malta	100.00	Turkey	100.00
Greece	50.00	Portugal	100.00	Malta	100.00	UAE	100.00
Ireland	50.00	Spain	100.00	Malta	100.00	USA	100.00
Italy	50.00	Sweden	100.00	Malta	100.00	West Bank	100.00
Japan	50.00	Switzerland	100.00	Malta	100.00	World	100.00
Latvia	50.00	Turkey	100.00	Malta	100.00		
Lithuania	50.00	UAE	100.00	Malta	100.00		
Malta	50.00	USA	100.00	Malta	100.00		
Malta	50.00	West Bank	100.00	Malta	100.00		
Malta	50.00	World	100.00	Malta	100.00		
Malta	50.00			Malta	100.00		

Area	Score	Area	Score	Area	Score	Area	Score
Africa	50.00	Green	100.00	Lat	100.00	Other	100.00
Asia	50.00	Hong Kong	100.00	Malta	100.00	S. Africa	100.00
Belgium	50.00	Hungary	100.00	Malta	100.00	Singapore	100.00
Bulgaria	50.00	Ireland	100.00	Malta	100.00	South Africa	100.00
Czech Rep	50.00	India	100.00	Malta	100.00	Spain	100.00
Denmark	50.00	Italy	100.00	Malta	100.00	Sweden	100.00
France	50.00	Japan	100.00	Malta	100.00	Switzerland	100.00
Germany	50.00	Poland	100.00	Malta	100.00	Turkey	100.00
Greece	50.00	Portugal	100.00	Malta	100.00	UAE	100.00
Ireland	50.00	Spain	100.00	Malta	100.00	USA	100.00
Italy	50.00	Sweden	100.00	Malta	100.00	Switzerland	100.00
Japan	50.00	Switzerland	100.00	Malta	100.00	Turkey	100.00
Latvia	50.00	Turkey	100.00	Malta	100.00	UAE	100.00
Lithuania	50.00	UAE	100.00	Malta	100.00	USA	100.00
Malta	50.00	USA	100.00	Malta	100.00	West Bank	100.00
Malta	50.00	West Bank	100.00	Malta	100.00	World	100.00
Malta	50.00	World	100.00	Malta	100.00		
Malta	50.00			Malta	100.00		

NEWS: INTERNATIONAL

Delors tries to give treaty kiss of life

By Lionel Barber in Brussels and Philip Stephens in London

MR JACQUES DELORS, president of the European Commission, will today begin a campaign to breathe life into the Maastricht treaty to build up momentum ahead of Friday's special EC summit in Brussels.

Working with the Belgian Presidency of the EC, Mr Delors will call for closer macro-economic co-operation and a strengthening of the faltering EC "growth" initiative at a meeting of EC finance ministers today in Luxembourg.

The meeting marks the start of an intensive round of European diplomacy which could end on Friday with a decision on the site of a future EC central bank, more openness in the Community, and new "joint actions" to intensify humanitarian operations in former Yugoslavia and monitor the parliamentary elections in Russia set for December.

However, the summit could still be clouded by disagreements over implementation of economic and monetary union.

Mr John Major, the British prime minister, yesterday dismissed attempts by some of Britain's European partners to re-establish the Maastricht timetable for a single currency as "folly".

He also indicated Britain would strongly resist any watering down of the economic convergence criteria for economic and monetary union.

saying the criteria - covering such things as relative inflation rates and the size of public sector deficits - were "desirable in their own right".

Mr Kenneth Clarke, UK chancellor, is expected to reinforce that point at today's meeting of Community finance ministers by telling colleagues that the criteria have a role independent of the proposed timetable for a single currency in promoting sustainable economic growth.

Elsewhere, the pre-summit mood has been improved by the Bundesbank's unexpected decision to trim short-term interest rates by half a point.

However, member states such as Belgium and France remain wary of cutting rates for fear of breaking their link with the D-Mark in spite of the increased flexibility offered by wider 15 per cent fluctuation bands in the European exchange rate mechanism.

Mr Delors views Friday's summit as a chance to relaunch the Community after months of drift caused by the delay in ratification of the Maastricht treaty. He wants EC leaders to agree to clear macro-economic co-operation exploiting the provisions of the treaty.

At today's Luxembourg meeting, finance ministers will put the final touches to legislation allowing the second stage of European monetary union to begin on January 1 1994. This would also create the European Monetary Institute, the precursor of the planned European central bank.

One UK official in Brussels compares the parcelling out of institutions to a children's party ritual in which all the guests go home proudly clutching a bag of sweets.

Governments have to choose homes for a rich variety of agencies. The most difficult horse-trading has focused on the well-publicised struggle to select the city to host the European Monetary Institute (EMI), the forerunner of the planned European central bank.

Mr Van Miert said that Community steel prices could slump if EC industry ministers delay a vote next month on restructuring the Spanish, Italian and east German steel industries.

Mr Van Miert wants to present Commission proposals on state subsidies and capacity cuts for the publicly-owned steelmakers to a meeting of EC industry ministers on November 18.

But to do so, he needs first to agree a deal with the governments concerned. So far only the Spanish authorities have reached agreement with Brussels.

The Italian government is still negotiating with the Commission about the proportion of debt which should be injected into a new privatised steel company, and the formula for calculating aid and capacity cuts. The German

government has yet to disclose its formal plans for private sector investment in the Ekostahl plant in east Germany.

In an interview with the Financial Times last week, Mr Van Miert said the German case was now "mainly a political

issue", but he agreed it was likely to be the most difficult problem to solve. Bonn is insisting that it should be allowed to subsidise Ekostahl because its privatisation is an important element in the overall restructuring of eastern Germany.

The EC is trying to put in place a rescue plan for the Community industry, to relieve problems caused by overcapacity, recession and cheap non-EC imports. So far the Commission has

taken measures to restrict unfairly priced imports, monitor the steel market, and provide financial support for redundancies in the steel sector. But if it cannot present proposals to the November 18 meeting of ministers, Mr

Van Miert fears that a 10 per cent rise in the price of EC steel products over the last few months will be wiped out, because the benefits and credibility of other elements of the EC's rescue proposals will be undermined. "The current steel price" is still considerably below the price needed in order (for the industry) not to lose money any more.

Private-sector steelmakers will also be reluctant to cut production if they know that their state-owned counter-

parts are still receiving subsidies. Mr Van Miert said it was particularly important in this respect that closures at Ilva, the loss-making Italian steelmaker, were implemented quickly. "That would be a sign to the market that the operation is really under way, and then the private companies will put their cards on the table," he said. Three weeks ago Ilva announced plans to cut 11,600 jobs between 1994 and 1996.

If Bonn and Rome do come up with restructuring plans in time, the commissioner believes ministers will reach unanimous agreement next month.

Mr Van Miert is under particular pressure because he will be in Japan next week, and will therefore be unable to seek Commission endorsement for proposals on the Italian and German industries. That would leave very little time to prepare for a vote at the ministers' meeting.

See Monday interview, Second Section

Squabbles over EC goodies near an end

This Friday's summit is likely to send nearly everyone home with an institution

A COMPLEX exercise in EC lobbying is approaching a climax. Two years of wrangling on choosing sites for nine institutions designed to enhance European co-operation have shown how that commodity can be in short supply.

However, Friday's special summit in Brussels should produce a deal which - barring last-minute surprises - provides benefits for nearly everyone.

The key to the likely compromise is that Britain has dropped its long-standing opposition to placing the EMI in Germany. Mr John Major, the British prime minister, will reiterate London's attractions - but this will be for form's sake only.

After the French and Spanish governments this month came out publicly in favour of Germany, Frankfurt - heavily promoted by Chancellor Helmut Kohl and the Bundesbank - seems the probable choice.

Mr Kohl claims this would buttress the German electorate's declining support for economic and monetary union (Emu). France in particular opposes a city which is already a financial centre. Bonn, Mainz, Kiel, Wiesbaden and Berlin have been mentioned as alternatives.

But Mr Kohl has signalled strong opposition to anywhere but Frankfurt. In view of Germany's pivotal role in the politics of Emu, he is likely to have his way.

Pointing to what they see as the slender possibility that the EMI will grow into a fully-fledged central bank in coming years, British officials say the institute will have mainly "academic" significance.

That interpretation was strengthened by last week's announcement that Mr Alexandre Lamfalussy, general manager of the Bank for International Settlements, is likely to be the first EMI president.

Mr Wim Duisenberg, president of the Dutch National Bank, was backed by several countries as a much more high-profile choice to run the EMI. But he turned the idea down, partly because the job would offer him only limited scope.

Underlining the links between different parts of EC decision-making, there are several other reasons why the Dutch government has not pressed Mr Duisenberg's candidacy.

Mr Ruud Lubbers, the Dutch prime minister, is bidding to become the next EC Commission president when Mr Jacques Delors departs at the end of next year. The Netherlands reckons that Mr Lubbers's chances would be impeded if Mr Duisenberg were given the less important EMI post.

On still more Byzantine level, the Netherlands believes that nominating Mr Duisenberg as EMI chief would undermine its separate candidacy of Amsterdam as the EMI site. The Dutch know that Frank-

furt has the upper hand. But they want formally to maintain Amsterdam's bid as a means of ensuring that the EC agrees to their alternative objective - opposed by France - of bringing to The Hague the planned European Drugs Agency.

Several EC members are backing Frankfurt's EMI candidature in a blatant attempt to win German support for bringing other sought-after institutions to their capitals. Denmark - which, like Britain, has won an exemption from Emu - says it supports Frankfurt as having given up earlier plans to lobby for the trade marks and environmental agencies.

The Spanish government has backed the German line for precisely the same reason. In case either city fails to win the

Environment Agency, Madrid and Copenhagen have their eye on a consolation prize: they are also maintaining fall-back bids for the Trade Mark Office.

Ireland, which strongly supports putting the EMI in Germany, wants to host the European Medicines Evaluation Agency, which would investigate the safety and effectiveness of medicines across the EC.

Mr Brendan Howlin, the Irish health minister, says Dublin is concentrating on winning the medicines agency, having given up earlier plans to lobby for the trade marks and environmental agencies.

The stiffest competitor here is the UK government, which now believes the medicines agency would be a greater

source of employment than the EMI.

Mrs Virginia Bottomley, the UK health minister, has recently visited Brussels to press London's application. She points to evidence that Swiss and US drugs companies, as well as British ones, support London's application.

A key component of Britain's case is that southern England offers a more liberal environment for pharmaceutical research than competing areas on the continent. If Mr Major this week can persuade Mr Kohl of this salient point, Britain's chances of stitching up a deal will increase.

Report by Paul Abrahamson, Lionel Barber, Hilary Barnes, Tim Coome, David Marsh and Ronald van de Krol

THE NEW NINE: WHAT THEY WOULD DO

European Monetary Institute: harmonising monetary policies.

European Drugs Agency: handling data on narcotics.

European Plant Breeders' Rights Office: registering plant strains.

European Trade Mark Office: registering trade marks.

European Medals Evaluation Agency: testing pharmaceuticals.

European Work Health and Safety Agency: improving work conditions.

European Veterinary Inspection Agency: testing animal health.

European Drugs Observatory: analysing data and trends on drugs.

European Foundation for Training: harmonising training procedures.

Also seeking a home are institutions aimed at harmonising Community policies on cleaning up the environment, fighting drug dealers, licensing pharmaceuticals, breeding plants and registering trade marks.

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European Veterinary

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NEWS: INTERNATIONAL

First Soviet leader suffers the final ignominy

By Gillian Tett in Moscow

AFTER a year of being knocked off pedestals across the former Soviet Union, Lenin has suffered the final Russian humiliation. An unnamed German businessman has offered DM1m (£406.5m) for his embalmed body.

According to Russian officials, he wants to display it as a tourist attraction in Europe. The proposal will almost certainly be rejected. Although Moscow city officials say they

have received other western offers, they stress they have no plans to sell the body. Last week, Mr Yuri Luzh-

German businessman offers DM1m for Lenin's body

kov, the hard-nosed mayor of Moscow, suggested to Mr Yeltsin Lenin's body should be removed from its prestigious

place to be given a "proper burial" with his mother and sister in St Petersburg.

"The return of Lenin's body would be an act marking the return of national traditions, as historically stipulated by the spiritual and cultural influence of the Russian Orthodox church," he said.

Any reburial of either Lenin or Tsar Nicholas II, shot by Bolsheviks in the Urals in 1918, would require the blessing of the Church - a factor that could delay the process

and add an extra note of political controversy.

Few officials openly admit that they are considering moving Lenin's body specifically in response to recent events, such as this month's revolt by communist hardliners. In public, at least, they argue that Lenin's family themselves requested that his body be buried in St Petersburg.

But, with the Lenin Mausoleum on Red Square a key focus for anti-communist demonstrations in recent years,

the suggestion of closing it is undoubtedly intended as a symbolic boost to the reformers - and has already provoked bitter protests.

Lenin's niece, Mrs Olga Ulyanova, has denied he asked to be buried in St Petersburg, and insists on being consulted before any reburial. All the same, the mausoleum's wardens say they have been besieged by calls from anxious relatives of the deceased, concerned by rumours of a secret removal of the body.

For the moment, the reformers have the upper hand - although only 45 per cent of Russians in the summer supported removing Lenin's body, the figure shot to 62 per cent after the failed revolt, according to a recent opinion poll.

But Mr Yeltsin's officials say that the reburial is unlikely to occur before the parliamentary elections in December - not least because, in the best Soviet tradition, there is now a queue for reburial.

Top of the list, says Mr Ser-

gei Filatov, Mr Yeltsin's chief of staff, is the Tsar's family. Others potentially awaiting reburial include Leonid Brezhnev, Josef Stalin and the American Bolshevik sympathiser John Reed.

Meanwhile, across the square from the mausoleum, the official Lenin Museum last week opened an alternative. Tourists can now visit a political waxworks featuring not just Lenin, but also deathly-looking figures of Messrs Yeltsin and Mikhail Gorbachev.

Regional campaigners quick to learn electoral tricks

AS Russian President Boris Yeltsin's allies lay their plans for the coming elections, Mr Boris Mizukh, a pro-Yeltsin official in the distant city of Chelyabinsk, has been poring over electoral maps.

For, as the campaign for the December parliamentary elections gets under way in Russia, pro-Yeltsin forces in cities such as Chelyabinsk are already using every electoral trick for the battle.

"We [in the government] have the right to set the electoral boundaries. So we will set them in a way that is good for the Yeltsin parties," says Mr Mizukh, who works in the local pro-Yeltsin administration and is himself planning to stand as a candidate.

Judging from the political climate in Chelyabinsk - an industrial region in the Urals 1,800km east of Moscow, with 3.5m people and many key nuclear missile sites - it seems that the pro-Yeltsin forces may not

need to resort to such ploys to win. Following Mr Yeltsin's crackdown on anti-Yeltsin officials in recent weeks, his opponents in the regions are in disarray.

The chief opposition to Mr Yeltsin in Chelyabinsk, and in most of the 88 regions and autonomous republics of Russia, has been the regional council, which was elected four years ago at the same time as the now-defunct Russian parliament, and dominated by Soviet era officials.

The Chelyabinsk council has vociferously supported parliament - during the recent battle in Moscow it thrice passed resolutions condemning Mr Yeltsin's actions, and has repeatedly demanded economic autonomy for the region.

And although Mr Yeltsin appealed to the regional councils last week to dissolve themselves, the council has so far defied the decree.

"We will fight on. You in the west

have one standard for democracy for the west and one for Russia - where else would you allow a president to sack all its elected councils?" says one council leader.

But in spite of the bitter words, the anti-Yeltsin forces are in confusion.

Gillian Tett reports from Chelyabinsk

sion, with many claiming that they have been "betrayed" by extremists in the Russian parliament.

A decree from Mr Yeltsin has stripped the council of most of its powers and budget. And although the council plans to participate in the elections, the local media remains pro-Yeltsin, and most of the anti-Yeltsin parties banned.

Some in the council hope the Unity and Accord party, founded by Mr Sergei Shakrai a week ago, will

provide an alternative platform, particularly since Mr Shakrai's party is now organising in the provinces.

In recent months, Mr Shakrai has been at pains to cultivate support from regional councils and repeatedly telephoned the Chelyabinsk council last week.

But though the Chelyabinsk council believes that a large proportion of the population still supports it, it will have an uphill fight against the pro-Yeltsin forces, who have already organised themselves around the "Russia's Choice" party - the party headed by Mr Yeltsin's close ally, Mr Yegor Gaidar. In the last year Mr Gaidar has taken pains to court Chelyabinsk's administration - he twice made the two-hour flight from Moscow to visit the local governor, Mr Vadim Solovov.

Meanwhile, the Russia Choice group has already started selecting its candidates and providing finance for their campaign.

"I am taking part to defend my business and defend the reforms," says one candidate, who fears that if the Communists came back to power they would strip him of the private meat factory he owns.

But, as in most other regions of Russia, the ideological labels of "communist" or "democrat" conceal a host of private rivalries. The "democrat" side, headed by Mr Solovov, for example, is far from "democratic" in some of its attitudes.

Mr Solovov, for example, believes that if too many Communists are elected to the parliament, Mr Yeltsin must dissolve it, and strongly opposes elections for his own post as governor.

"If we had elections an old Communist might win. World America and other countries want a Communist controlling a region with thousands of nuclear warheads," he says. Meanwhile, Mr Solovov - like so

many of his counterparts across the country - has a personal vendetta to wage.

His main rival, Mr Pyotr Sumin, the head of the local council, was originally an ally of Mr Solovov. Until the end of the 1980s the two men worked in the local Communist party, and were such friends they built their dachas next door to each other.

However, when Mr Solovov was selected by Mr Yeltsin to be governor, the men became deadly rivals, with Mr Sumin taking the anti-Yeltsin side.

The political rivalry has now led to the two men building a two-metre-high wall between their gardens.

And as the bitter battle for the elections gets under way across the country, it seems that personal power struggles such as this one - rather than ideological abstractions - could yet be the key force in much of the election.

Papandreou pledges creation of stable climate for investment

By Kerin Hope in Athens

MR Andreas Papandreou, Greece's newly elected Socialist prime minister, has outlined a set of moderate economic policies, pledging to reduce inflation and the rapidly rising public-sector deficit and "create a stable climate for investment".

In his policy statement to parliament at the weekend, Mr Papandreou diluted his opposition to privatisation, saying that minority shareholdings in state enterprises would be floated on the Athens stock exchange.

"Privatisation is not incompatible with our policies, provided that it doesn't lead to private monopolies," he said.

Mr Papandreou singled out OTE, the state telecoms company, as a candidate for a partial flotation, to raise funds for investment.

However, he repeated that the Socialist government would repeal a law passed earlier this year providing for the sale of a 35 per cent stake in OTE to an international telecommunications operator.

Mr Papandreou also underlined that the Socialist government was still committed to major infrastructure projects, launched by its conservative predecessor.

He said a project to build a new airport for Athens, awarded to an international consortium led by Hochtief of Germany, would go ahead "with

special attention being given to transparency".

Despite trying to dispel fears that fiscal prudence would be abandoned, Mr Papandreou did not propose any new revenue-raising measures to offset the loss of an estimated Dr330bn (£22m) in privatisation income this year.

He said the Finance Ministry would intensify efforts to speed tax collection to make up a projected revenue shortfall of at least Dr500bn, the result of worsening tax evasion as recession deepens.

Domestic borrowing will be increased to cover the widening deficit, which may exceed the budget forecast of 10.8 per cent of gross domestic product by almost three percentage

points, according to independent analysts.

On foreign policy, Mr Papandreou stressed Greece's commitment to European economic union.

He said Greece would try to build good-neighbourly relations with Turkey, its traditional enemy, and would work to re-establish multilateral co-operation in the Balkans.

However, Mr Papandreou did not clarify how Greece could play a constructive role in the Balkans while refusing to recognise Macedonia under that name.

He accused the Macedonian leadership of "showing intransigence" over the name dispute.

Christopher will press Kiev to give up missiles

By Jill Bensch in Kiev

MR Warren Christopher, US secretary of state, will today arrive in Kiev bearing gifts and assurances, as part of Washington's new tactic to press Ukraine to relinquish its nuclear arsenal.

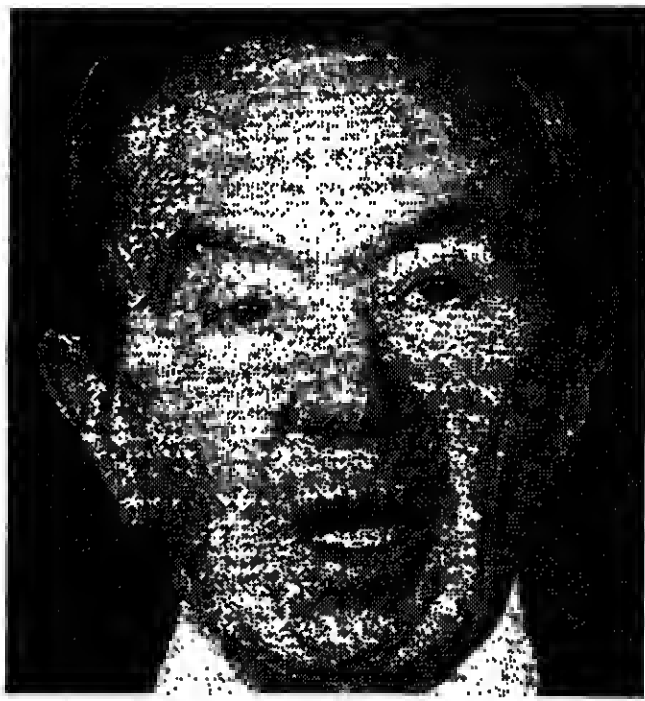
Since the summer the US has shifted its approach towards Ukraine to conditional economic assistance, encouraging Ukraine's nuclear disarmament through small carrots of financial aid and high-level diplomatic contacts.

Ukraine is the third largest nuclear power in the world with 178 strategic missiles and 1,566 nuclear weapons. Inherited from the former Soviet Union, this is larger than the arsenal of Great Britain, France and China combined.

Though President Leonid Kravchuk has already obliged Ukraine to accede to the 1991 Strategic Arms Reduction Treaty (Start I) and become a non-nuclear power according to the 1992 Lisbon protocol, Ukraine has not ratified or implemented these agreements, which would transfer all its nuclear weapons to Russia.

Instead Ukraine has been hanging on to them as bargaining chips with the west for economic aid, security guarantees and international attention.

Only last week Mr Kravchuk said Ukraine should keep its 46 modern SS-24 missiles because the west is not doing enough to help Ukraine. Kiev is asking



Warren Christopher: new Washington tactics

for \$2.5bn (£1.6bn) to dismantle their nuclear arsenal.

In addition Ukraine is looking to the west for security guarantees to protect its borders, and membership in Nato. Kiev is wary that Nato might expand into eastern Europe to include former Warsaw Pact neighbours, such as Poland, but leave Ukraine to fend for itself within Russia's sphere of influence.

During Mr Christopher's one-day stop in Kiev on the tour of

the former Soviet Union and eastern Europe, he is expected to announce a \$30m aid package of agricultural credits and technical assistance.

● Leyla Boulton writes from Moscow: On his way to Ukraine, Mr Christopher stopped in Almaty, the capital of Kazakhstan, where he received assurances from President Nursultan Nazarbayev that the republic would stick to commitments to dismantle its nuclear weapons.

Commonwealth plans to assist in South Africa poll

By Michael Holman in Limassol

COMMONWEALTH leaders will today finalise a plan to help South Africa prepare next April's general election and help monitor the poll itself. Chief Emeka Anyaoku, the organisation's secretary general, said last night.

Mr Thabo Mbeki, a senior African National Congress official attending the conference as an observer, has raised the prospect of a longer-term Commonwealth role, inviting the body to act as a human rights "watchdog" to help protect minority rights after a new government is installed.

South Africa, out of the Commonwealth since 1961, is expected to be readmitted after the elections.

Together with further discussions on world trade and debt, South Africa was one of the main items on the agenda during the heads of governments' retreat over the weekend at the historic centre of Paphos.

Mr Mbeki welcomed Commonwealth assistance but gave a further dimension to the body's role in South Africa and elsewhere by proposing it continue to play a watchdog role

on human rights after installation of a new government.

The suggestion will be welcomed by many Commonwealth leaders keen to ensure that the association's principles are put into practice. British officials have always been cautious about such proposals, however, aware that policy in Northern Ireland would come under the scrutiny of a standing committee that would monitor and investigate human rights abuses in Commonwealth states.

Leaders were also preparing the conference communiqué, to be issued when the five-day summit ends this evening. It will confirm that the membership application from the west African state of Cameroon will be provisionally accepted, subject to implementation of political and human rights reforms.

Mozambique is also expected to apply for membership after next year's general election. Meanwhile, trade ministers from Malawi, Mauritius, Canada, Barbados and Ghana were chosen to put the Commonwealth case for a successful end to the Uruguay Round of trade talks to negotiators in Paris, Washington, London and other capitals.

Palestinians' release near

Mr Shimon Shetret, Israel's economy minister, said yesterday's weekly cabinet meeting had agreed to start a gradual release of 700 Palestinian prisoners over the coming days. Julian O'Connell writes from Jerusalem. The first batch will include the old, sick, women and children.

Romania controls

Romanian Prime Minister Nicolae Vacarolu has ordered price controls and curbs on imports in a new blow to economic reforms, Reuter reports.

Georgia in CIS

Mr Eduard Shevardnadze, the Georgian leader, has signed a decree formally entering his country into the Commonwealth of Independent States, Itar-Tass reported, writes Leyla Boulton from Moscow.

Liechtenstein poll

Early results in yesterday's Liechtenstein election showed the senior party in the principality's ruling coalition was likely to lose its majority to its alliance partner, Reuter reports from Vaduz. Based on preliminary results from five out of 11 constituencies, the centrist Fatherland Union appeared likely to regain the majority it lost earlier this year to the right-wing Progressive Citizens' party.

Bosnians launch new offensive

By Laura Silber in Belgrade

BOSNIAN government forces, in the absence of a political settlement, yesterday sought to enlarge their territory, launching an offensive on the Croat-held town of Vares, central Bosnia.

UN officials said the mainly Muslim army was trying to link up with soldiers trapped in the Croat enclave, mostly spared in the 19-month war.

"The Bosnian army opened up a route to relieve its people within the pocket. Having done that, the Bosnian army is pressing ahead with an assault along the northwest-southwest flank of the Croat forces," said Colonel Bill Adam, spokesman for the UN Protection Force.

Sarajevo radio said the offensive followed the complete destruction by Bosnian Croats of forces of Stupni Do, a Muslim village on the outskirts of Vares.

The Croatian Defence Council (HVO) "burned houses and killed civilians," said the radio.

"The village of Stupni Do is still burning. There will soon be an offensive to liberate this part of Bosnia."

Vares, under the control of the HVO, lies on a key road from Sarajevo to Tuzla, one of the biggest government strongholds in the northeast.

Bosnian government forces, under President Alije Izetbegovic, are trying to re-open the route to Tuzla, blocked since the collapse last May of their alliance against the Serbs with the HVO.

Mr Fikret Abdic, a local leader from the dense Muslim heartland in the northwest, last week signed "peace agreements" with Serb and Croat nationalists.

Mr Izetbegovic now fears that other enclaves, cut off from the Bosnian capital, may broker separate deals with Serb and Croat adversaries in an attempt to end their isolation before the onset of the second winter of war.

Mr Abdic's peace pact appeared to prompt a 500-metre advance at the weekend by Serb troops. Sarajevo radio said it was joint assault by the "Serbian aggressor" and forces loyal to Mr Abdic aimed at weakening Bosnian government control over the Muslim pocket.

GM agrees three-year labour deal

By Richard Waters in New York

GENERAL MOTORS backed away from confrontation with the United Auto Workers union over the weekend as it agreed to a new three-year labour deal closely echoing those reached by its Detroit rivals Ford and Chrysler.

The deal, subject to approval of 241,000 UAW workers, heads off the strike threat at the world's biggest carmaker. But it could also hit the share price of GM, which faces higher pension costs as a result of the agreement.

The deal was reached at 1am on Sunday morning, after 16 hours of talks, and more than a month after the company's last labour agreement expired. The UAW said it closely resembled the deal struck between the union and Ford last month, which had set the pattern for the Chrysler agreement, though GM refused to comment.

Pensions and job security clauses were the main sticking points over which an agreement almost foundered. Under the Ford agreement, workers with more than 30 years' service will get a 13 per cent rise in their monthly income, to \$2,030 (\$1,385). GM, which already faces an unfunded pension liability of \$19bn and would be harmed more than its rivals by higher pension costs, resisted a similar rise.

Mr Gerald Knebel, vice president in charge of personnel for GM's north American operations, said the deal would allow the carmaker to maintain its "momentum in improving its operating performance in the US".

CORRECTION

Owing to a typographical error, the article on Hungarian privatisation published on October 19 stated that the government's small investor shareholder programme would cover only 0.75 per cent of state companies. The true figure is between 4 and 5 per cent.

CONTRACTS & TENDERS



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كتابات

Liberals set for Canadian poll victory

By Bernard Simon in Toronto

CANADIANS set aside their political differences yesterday to celebrate the Toronto Blue Jays' second consecutive victory in the World Series baseball championship. But the exuberance of the hundreds of thousands of fans who clogged downtown Toronto will not prevent Canadian voters exposing the widening fault-lines in their society today when they go to the polls.

Mr Jean Chretien, whose Liberal party is almost certain to end nine years of Progressive Conservative rule, saw the Blue Jays' nail-biting win over the Philadelphia Phillies as a good omen for the success of his own party.

If opinion polls are correct, the Liberals will be left as the only national party with significant representation in the 295-seat House of Commons.

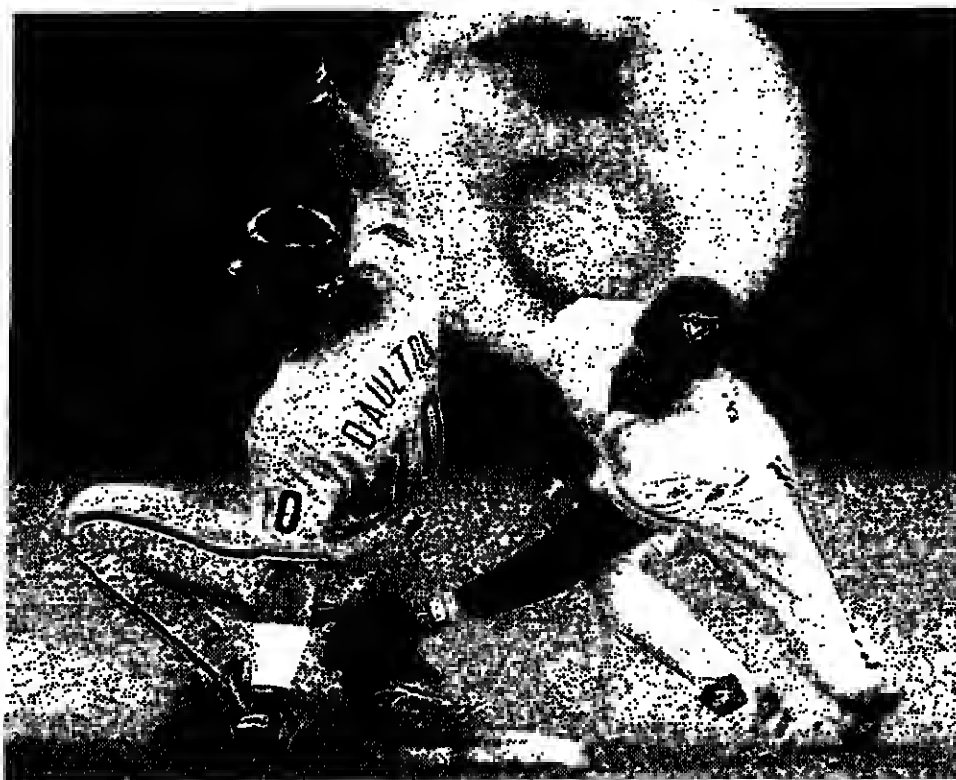
The Conservatives, led by Ms Kim Campbell, and the left-of-centre New Democrats are bracing themselves for some of the most devastating setbacks in Canadian political history.

Ms Campbell, who took over as Canada's first woman prime minister four months ago, has had a disastrous campaign. Her inexperience and an unconvincing policy platform have wiped out hopes that she would erase voters' memories of her unpopular predecessor Mr Brian Mulroney.

Most of the opposition seats are expected to be occupied by two fledgling regional parties, the secessionist Bloc Québécois and the populist Reform party, whose main strength is in western Canada.

An unusually large number of three- and four-way contests make it difficult to predict the precise result. But the Bloc is set to win the vast majority of Quebec's 75 seats, while Reform candidates will probably pick up several dozen Alberta and British Columbia constituencies now held by the Conservatives.

The potential for growing friction between Quebec and the rest of the country was underlined over the weekend by suggestions that the Conservatives should form ally with



The Phillies' Darren Daulton beats the Blue Jays' Roberto Alomar to second base

Reform to prevent the BQ from forming the official opposition.

Many English-speaking Canadians wonder whether MPs whose main goal is to break up the country should become Her Majesty's Loyal Opposition. Mr Lucien Bouchard, BQ leader, said he would fight any attempt to stop the BQ forming the official opposition if it gains the most seats after the Liberals.

"People better not come and tell me that they will not respect the democratic will of Quebecers," he said. Mr Bouchard indicated however, that he would not move into the leader of the opposition's official residence in Ottawa.

Predictions that the Liberals

will gain enough seats to form a majority government have brightened the mood of financial markets. The Canadian dollar soared by almost two US cents last week, and bond prices have regained most of the losses they suffered at the start of the campaign.

Canadian bonds, International Company News page

White House poised to support bank retaliation

By George Graham in Washington

THE Clinton administration is expected to throw its weight today behind measures that would allow trade retaliation against countries with restrictive financial services markets.

Mr Lloyd Bentsen, Treasury secretary, is expected, in a speech outlining the administration's approach to banking legislation, to back the Fair Trade in Financial Services bill, which would compel government regulators to prevent the US expansion of banks and financial companies from countries which do not offer equal access to US companies.

Mr Lawrence Summers,

Treasury undersecretary in charge of international affairs, is due to testify on the issue tomorrow to the Senate banking committee, whose chairman, Senator Donald Riegle of Michigan, is the chief sponsor of the retaliatory legislation.

Some Washington banking specialists wondered whether Mr Bentsen might also address the question of interest rates, possibly urging other banks to follow the lead of Morgan Guaranty in cutting its prime rate last week by half a percentage point to 5.5 per cent.

The Fair Trade in Financial Services legislation has been debated in Congress for years. The measure was backed with some reservations by the Bush

administration, but the strongest opposition has come from the Federal Reserve Board, which has contested the desirability of limiting access to US financial markets.

While the primary target of members of Congress has been the Japanese securities market, US commercial bankers say that in their sector the legislation would be most likely to come into play against such countries as South Korea, Taiwan, Singapore and Brazil.

Mr Bentsen is also expected to voice support for legislation authorising banks to expand outside their home states - a measure now being discussed in a House of Representatives sub-committee.

CIA labels Aristide a murderer

PRESIDENT Bill Clinton has sprung to the defence of Mr Jean-Bertrand Aristide, the exiled Haitian president, after a Central Intelligence Agency assessment described him as a mentally unstable murderer, writes George Graham.

Mr Clinton said the evidence from Mr Aristide's brief spell as Haiti's president before he was forced out in 1991 by a military coup tended to undermine those reports. "During the time he served as president, political terrorism and abuses went down in Haiti, not up," Mr Clinton said.

In an assessment that has been seized on by

the right wing, a CIA analyst told members of Congress last week that Mr Aristide had ordered the murder of an opponent and spurred mob violence, and cited medical evidence that he suffered from manic depression.

Mr Aristide has denied the allegations, and has countered with charges that the military leaders who now control the country are involved in drug trafficking.

The Clinton administration, meanwhile, has been placed in the embarrassing position of having to discredit its own intelligence analysts.

Wheat exports to US face trade sanctions

By Laurie Morse in Chicago

US congressmen representing northern wheat-growing states may be close to success in their push to impose emergency curbs against Canadian wheat imports into the US.

The congressmen, led by North Dakota Senator Kent Conrad, have been campaigning against agricultural provisions of the US/Canada free trade agreement for a year, and see a fresh opportunity to push their case in Washington as President Bill Clinton's search for votes in support of the North American Free Trade Agreement becomes more desperate.

Wheat growers in North Dakota, Montana and Idaho say Canada unfairly subsidises rail transport for its wheat exports, leaving US producers at a disadvantage. However, they were unsuccessful in pressing their case before a US/Canadian arbitration panel in the summer.

Mr Michael Espy, US agriculture secretary, and Mr Mickey Kantor, US trade representative, indicated in mid-September that they supported using an emergency section of the US Agricultural Adjustment Act against Canada. The section would impose either tariffs or quotas on Canadian imports.

Mr Espy so far has not imposed sanctions but could do so soon, after Canadian elections today. "I think the general sentiment is, we don't want to make a decision on a trade issue that could have a

potential impact on the outcome of the elections," said a spokeswoman for Mr Conrad.

The wheat dispute is another example of special interest farm groups' pressure on national trade policy.

It centres on durum, a variety of wheat used to make pasta. US production has fallen as farmers choose to plant hard red spring wheat, which is a more profitable crop.

Durum comprises only 3 per cent of the entire US wheat crop. However, the US Department of Agriculture has been aggressively exporting US durum to countries such as Turkey and Algeria using its export enhancement programme subsidies. It plans to sell about 816,000 metric tonnes of durum under the programme this year, at an average cost to the US taxpayer of about \$1.75 (\$1.15) a bushel.

The outflow of durum under the programme has boosted prices paid to US farmers to a near-record \$4.50 per bushel, and left US durum processors scrambling for high-quality grain.

Canada has filled in the deficit, selling about 389,000 metric tonnes of durum to US processors last year.

While North Dakota wheat interests say tariffs against imports will further raise prices for US farmers, their critics contend that sanctions will either put domestic durum processors out of business, or force them to relocate to Canada.

Brazil's budget moves backed

By Angus Foster in São Paulo

MR Fernando Henrique Cardoso, Brazil's finance minister, has won limited support from President Itamar Franco for a set of measures designed to balance the country's budget.

But there is concern among business groups and foreign investors that Mr Cardoso is acting too slowly and that his measures will be insufficient to tackle Brazil's annualised inflation rate of close to 2,000 per cent.

Following a meeting of senior ministers late last week, President Franco said he would support the extension of Brazil's privatisation programme and stressed the need to wipe out the government's budget deficit, otherwise expected to reach \$2.5bn (\$1.5bn) next year. Details of the new measures are due to be published soon.

The president's announcement was seen as only a partial victory for Mr Cardoso, who faces strong opposition from other ministers. The privatisation programme, which has successfully sold off Brazil's steel industry, is now expected to be extended to the electricity sector as well as the state railways.

But Companhia do Vale do Rio Doce, the state-controlled mining concern, is unlikely to

be included, as it appears to be too divisive politically. The two most sensitive state monopolies, the telecommunications and petroleum companies Telebras and Petrobras, are protected from privatisation by the 1988 constitution.

A constitutional revision now under way has been delayed by a corruption scandal and Congress is divided on whether the companies should be opened to competition.

Mr Cardoso and his economic team are expected to try to wipe out this year's budget deficit of about \$8bn immediately through tax measures. Steps to address next year's shortfall will need the approval of Congress, which will be difficult in an election year. One idea being considered is a new, higher-rate tax bracket to target the country's wealthy.

"The minister felt he was successful. He would have liked more, but that is politics," one of his assistants said.

Mr Cardoso's moves were cautiously welcomed by the business community, although there is concern about the privatisation programme and that spending cuts are more important than tax-raising measures.

"Brazil is already one of the most heavily taxed countries in the world. What we need is political agreement on cutting government's costs," one São Paulo businessman said.

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NEWS: INTERNATIONAL

Algerian extremists kidnap foreigners

By Mark Nicholson

ALGERIAN Islamic extremists yesterday kidnapped three employees of the French consulate-general in Algiers, appearing to intensify a new campaign to force foreigners out of the country and increase pressure on the government.

The abductions follow the murder of seven foreigners in the past few weeks. They were the first direct attacks on members of Algeria's 70,000-strong expatriate community since Islamic extremists launched a violent campaign to topple the military-backed government nearly two years ago.

No group immediately claimed responsibility for the

kidnapping. But a group calling itself the Armed Islamic Group - one of many extremist Islamic cells operating in Algeria - said last week it killed three expatriate workers for ABB Sae Sadeimi, a Milan-based oil group.

The group said the killings were part of a campaign to target foreigners working for the Algerian regime, and warned expatriates to leave the country. Two French citizens and two Russian military trainers have been killed this month.

The attacks signal a new phase in a 21-month-old campaign which has claimed about 2,000 lives since the government cancelled elections to deny almost certain victory for

the Islamic Salvation Front (FIS), which had pledged to establish an Islamic state.

Mr Rabah Kebir, who described himself as an exiled FIS leader, said on French radio last week the Front was not behind the murder of foreigners, but added: "The popular movement is very difficult to control."

The attacks are of particular concern for the thousands of foreigners working in Algeria's crucial oil and gas industry - which accounts for more than 90 per cent of hard-currency earnings - whose numbers have swelled in the last two years following government encouragement of foreign participation in the sector.

Burundi coup plotters waver

TUTSI paratroopers who murdered President Melchior Ndadaye of Burundi in a coup last week appear to be ready to surrender power in return for an amnesty, writes Leslie Crawford.

Li-Colonel Jean Bikomagu, Burundi's army chief of staff, disclosed the plotters, in a radio broadcast at the weekend, saying: "The military men have accepted that the govern-

ment of Frodebu [Ndadaye's party] should rule again, but it should examine the question of amnesty for those who participated in the coup."

Members of Mr Ndadaye's government who have taken refuge in western embassies said they would not negotiate with the plotters while the Tutu-led army continued to massacre Hutu peasants.

Aid agencies said more than

200,000 Hutus - Burundi's main ethnic group - had fled into Rwanda since Thursday's coup.

Diplomats said the coup plotters had lost control of the army and were now frightened of the ethnic violence they had unleashed. But they could not see an early return to civilian rule while the minority Tutsi tribe continued to dominate the army and security police.

Japan fumbles for a nuclear stance

An anxious crowd gathered one evening last week on a pavement in central Tokyo beneath a giant television screen on the wall of a tower block.

Home-bound commuters had stopped to watch a news film of a rusty Russian navy tanker wallowing in the sea off northern Japan, as it pumped liquid nuclear waste into the water.

The commuters were not the only ones to be worried by the dumping, denounced as "deplorable" by Mr Tsutomu Hata, the foreign minister. The issue has dominated newspaper and television coverage for much of last week and outraged the environmentally sensitive, fish-eating Japanese.

This is not the first time the issue has arisen. Last March the Russian navy admitted it had routinely dumped nuclear waste in the Sea of Japan. It is "unbelievable" and a "disgrace", Japanese government leaders said at the time.

In the end, last week, Moscow was persuaded to cancel plans to dump a second load of waste - low-level coolant and cleansing water from decommissioned nuclear submarines - after a phone call from Mr Hata to his Russian counterpart, Mr Andrei Kozyrev.

Japanese Foreign Ministry officials correctly guessed that the dumping was as much of a surprise to Russian President Boris Yeltsin, who only a week before had been in Tokyo on

Russian waste dumping highlights an uneasy internal debate, writes William Dawkins

an official fence-mending visit, as it was to them. In return for Russia's co-operation, Japan will consider giving financial help for nuclear waste disposal on Russian territory.

Yet like many environmental rows, this one is more complex than it seems.

For a start, the radioactivity of the liquid dumped last week appears to be weak, and the International Atomic Energy Agency was informed in

advance. The Russians claim they were acting within international guidelines, even if outside a voluntary international moratorium on dumping nuclear material at sea. A Japanese research vessel has been dispatched to the scene to check.

Whatever the truth, the row highlights an uncomfortable internal Japanese debate about how the country should develop its own nuclear indus-

try. Governments have struggled, not always successfully, to balance the need to reduce Japan's present complete dependence on energy imports, with the imperative of satisfying environmental concerns.

Like Russia, Japan has a nuclear problem, even if it is of a different order. There is a parallel, for instance, between the row over Russian dumping and the international outcry that greeted last year's ship-

ment of 1.7 tonnes of plutonium fuel from a reprocessing plant in northern France to a port near Tokyo.

The protests from countries along the route, alarmed by Japan's fumbled attempts to keep the cargo secret, have prompted the government to review its plutonium policy.

Yet Japan needs the fuel, supposed to be the first of 30 such shipments, for use in a fast-breeder reactor under development.

Japan hopes it will no longer have to use French reprocessing in 10 years, when its own reprocessing plant is completed. But until then, Japan faces the same dilemma every time it needs a load of reprocessed plutonium.

In another parallel with Russia, Japan once had a bad environmental record, a cost of its fast post-war industrial growth.

This started to become unacceptable in the late 1960s, when mercury pollution in the sea off the southern coast led to deformed children and adult diseases in Minamata, a fishing town.

Even today Japanese courts are working through the queue of Minamata compensation suits, providing the public with repeated reminders of Japan's polluted past.

It is no surprise, then, that Russian waste dumping has given the Japanese government a few uncomfortable moments.

Tokyo nears rice decision

By Emiko Terazono in Tokyo

JAPAN is close to a decision on whether to lift its controversial ban on rice imports, a government spokesman said at the weekend.

Mr Masayoshi Takemura, chief cabinet secretary, said Japan needed to make a decision to open its rice markets soon, to avoid isolation at the Uruguay Round of multilateral trade talks.

"Discussions between Europe and the US are making headway, and we cannot resist [tariffication] much longer," he said.

Mr Takemura's comments follow last week's three-day visit by Mr Peter Sutherland, director-general of Gatt. Mr Takemura said Mr Sutherland had responded positively to a plan that Japan accept tariffication of rice imports after a six-year grace period.

His statements reflect the government's efforts to build public consensus over the rice issue. Until now Tokyo has repeated its protests

against the opening of the market, and has avoided any suggestion that the import ban be lifted.

However, earlier this month reports that Japan was offering a compromise plan were leaked to the press. The offer included a six-year moratorium period for tariffication on rice imports, during which it would import 3 to 5 per cent of its domestic rice needs.

Mr Morihiro Hosokawa, prime minister, faces the arduous task of convincing other members of the coalition government who oppose rice imports.

The Socialist party, which depends heavily on rural votes, has threatened to leave the coalition if the government were to open the market.

Meanwhile, Japan's farm co-operatives are planning to stage as many as 14 rallies throughout the country next month on the issue.

Asian city pollution 'at danger levels'

By Victor Mallet in Bangkok

MANY Asian cities are dangerously polluted, and sulphur dioxide and suspended dust levels can be tens or hundreds of times worse than in US or Canadian cities, according to a report prepared by the United Nations.

"Air pollution statistics point to the special risks of living in a large Asian city," says a study of Asian urbanisation from the UN Economic and Social Commission for Asia and the Pacific (Escap).

"Many Asian cities have high rates of lung cancer, tuberculosis and bronchitis," Escap says.

"In Bangkok, average blood

lead levels are 40 to 45 microgrammes per decilitre, four times the US standard. There is evidence of permanent brain damage in children because of lead poisoning."

Bangkok dust levels in 1990 alone are estimated to have cost 26m lost work days and 14,000 extra deaths. The Thai capital is notorious for its traffic congestion and for its

uncontrolled construction boom. Escap says the single-minded pursuit of economic growth has made several cities into "pollution havens" polluted by water and air pollution and inadequate waste disposal.

The agency rejects the commonly held view that developing countries must first pollute to become rich and then pay

for protecting the environment later. "While appropriate environmental protection imposes minimal short-term costs, it produces substantial long-term economic and social gains," the report says. It calls for the introduction of effective laws and institutions to restrict pollution.

Water contamination, which kills thousands of Asian children each day, is a particularly serious problem. "Rivers that flow into Asian cities are already laden with pathogens, sediments and pesticide residues," Escap says.

"They then become increasingly polluted with sewage, industrial effluent and solid wastes."

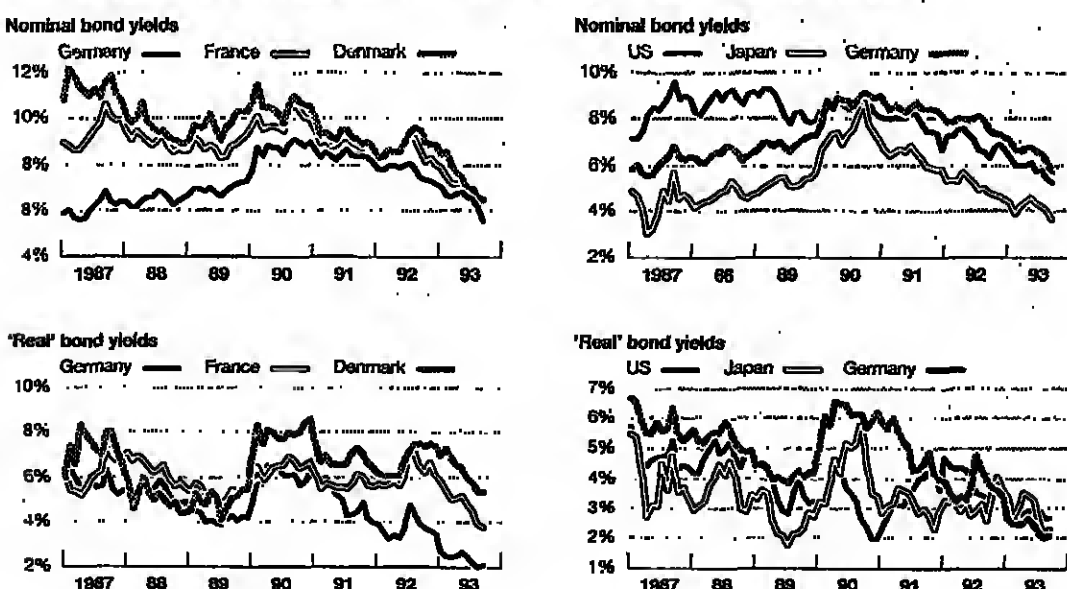
Many Asian cities generally dispose of solid wastes in open landfills, which pose pollution problems in themselves.

In Manila, about 20,000 people live on and around a rubbish dump known as Smokey Mountain, although the fact that they make money by selling the waste is often regarded as environmentally beneficial.



A masked policeman braves the traffic in Bangkok, notorious for its pollution

Convergence and divergence of nominal and real interest rates



Source: Goldman Sachs/Datastream

How the changed ERM might affect bonds

MIRROR, MIRROR on the wall, which are the best bonds of the big three? Among the leading industrial countries France would appear to have particularly attractive bonds. That at least was the conclusion of Jeremy Hale in a presentation last week on the occasion of the launch of this year's Green Budget from the Institute for Fiscal Studies and Goldman Sachs.

As is shown in the charts, the tendency in the old ERM was for nominal long-term interest rates of core participants to converge, because of the growing credibility of the fixed exchange rates. Meanwhile, "real" bond yields diverged, when real yields are defined in relation to short run inflation. Real interest rates, thus measured, have been twice as high in France as in Germany, which has imposed a painful burden on the former, at least in the short term.

The opposite picture emerges for

the bond markets of the big three industrial economies. In this case, nominal bond yields have not converged. But measured real yields have done so. This would make sense if investors had no strong views on the likely movement of real exchange rates, saw one currency as no riskier than another and believed current inflation was a reasonably good predictor of future inflation. In this case, nominal interest rate divergence would reflect divergent views on inflation and expectations of offsetting movements in nominal exchange rates.

Alternatively, if investors were to expect long-term inflation to fall below current inflation in any particular country, they would also expect a real depreciation of its currency. This may well be true of the D-Mark vis à vis the US dollar, since the Bundesbank has imposed relatively high short-term real interest rates precisely in order to reduce

German inflation. Suppose the pattern observed for the big three were to apply to the newly flexible ERM. Real yields in France should then move towards those in Germany. A reason for French real yields to fall quite sharply is the recession, which is not offset by high government indebtedness, despite the cyclical deterioration in the government's fiscal position. The recession also means that lower real interest rates are most unlikely to be brought about by higher inflation.

There is no obvious reason why France should go on suffering higher real interest rates than Germany. But if it is to enjoy lower real rates now it must first stop trying to convince the markets that its exchange rate remains fixed. By cutting short-term nominal interest rates, the French franc would presumably experience a step depreciation. But an expectation of a subse-

quent appreciation against the D-Mark could permit French long-term nominal interest rates to fall below German ones. Real interest rates would then converge.

It sounds wonderful: a short-term depreciation of the exchange rate against the D-Mark, followed by long-term appreciation; lower short-term real interest rates; and lower long-term real interest rates as well. But all this depends on convincing the markets that French inflation would stay low even if French short-term interest rates were to be cut below German levels. Can France retain its credibility without shadowing the Bundesbank? It might do marvels for French self-confidence to find out.

Martin Wolf
* Jeremy Hale, *Gills & Sterling in an International Perspective*, October 1993, Goldman Sachs International, London.

INTERNATIONAL ECONOMIC INDICATORS: MONEY AND FINANCE

This table shows growth rates for the most widely followed measures of narrow and broad money, a representative short- and long-term interest rate series and an average equity market yield. All figures are percentages.

■ UNITED STATES										■ JAPAN										■ GERMANY										■ FRANCE										■ ITALY										■ UNITED KINGDOM									
Narrow Money (M1)	Broad Money (M2)	Short Interest Rate	Long Interest Rate	Equity Market Yield		Narrow Money (M1)	Broad Money (M2)	Short Interest Rate	Long Interest Rate	Equity Market Yield		Narrow Money (M1)	Broad Money (M2)	Short Interest Rate	Long Interest Rate	Equity Market Yield		Narrow Money (M1)	Broad Money (M2)	Short Interest Rate	Long Interest Rate	Equity Market Yield		Narrow Money (M1)	Broad Money (M2)	Short Interest Rate	Long Interest Rate	Equity Market Yield		Narrow Money (M1)	Broad Money (M2)	Short Interest Rate	Long Interest Rate	Equity Market Yield																									
1985	8.0	8.9	6.00	10.59	n.a.	5.0	6.3	6.62	6.51	n.a.	4.3	5.1	5.45	8.94	n.a.	6.2	7.4	10.08	11.74	n.a.	13.2	13.5	14.34	13.71	n.a.	4.7	13.2	12.32	11.03	n.a.	4.7	13.2	12.32	11.03	n.a.	1985																							
1986	10.5	8.3	6.40	7.67	3.43	6.9	6.2	6.12	5.35	0.84	10.0	8.3	4.64	5.90	1.79	6.9	4.4	7.79	8.74	2.66	10.5	8.2	13.25	11.47	1.41	4.0	15.3	11.02	9.27	4.36	4.0	15.3	11.02	9.27	4.36	1986																							
1987	11.6	8.5	6.82	8.36	3.12	10.5	11.5	6.15	4.94	0.55	7.3	4.0	6.14	2.21	4.1	12.2	8.26	9.46	2.75	7.8	6.8	11.34	10.54	2.71	6.8	17.0	10.41	8.66	4.48	6.8	17.0	10.41	8.66	4.48	1987																								
1988	4.3	5.2	7.65	8.84	3.81	8.4	10.4	4.43	4.77	0.54	8.7	6.4	4.34	6.48	2.81	3.9	8.4	7.94	8.08	2.88	7.1	8.2	12.41	11.81	2.48	5.9	17.5	13.96	10.30	4.48	5.9	17.5	13.96	10.30	4.48	1988																							
1989	1.0	3.9	8.89	8.49	3.43	4.1	10.6	5.31	5.22	0.48	6.3	5.8	7.11	6.94	2.22	4.5	4.5	8.45	8.71	2.11	8.3	9.1	11.98	11.67	2.84	5.3	16.1	14.82	11.53	5.07	5.3	16.1	14.82	11.53	5.07	1989																							
1990	3.7	5.3	8.06	8.54	3.80	2.8	8.5	7.62	6.91	0.65	4.5	4.5	8.45	8.71	2.11	3.7	8.0	10.32	9.92	3.19	7.3	8.0	11.83	13.20	3.45	2.4	8.2	11.58	10.04	4.97	2.4	8.2	11.58	10.04	4.97	1990																							
1991	5.8	3.3	5.67	7.65	3.21	5.2	2.0	7.21	6.97	0.75	5.1	5.6	8.25	8.44	2.38	5.1	5.6	10.36	8.57	3.55	6.7	7.5	13.96	13.20	3.63	2.3	5.3	8.73	9.09	4.91	2.3	5.3	8.73	9.09	4.91	1991																							
1992	12.4	1.9	3.75	7.00	2.95	4.5	-0.4	4.28	5.25	1.00	7.1	8.2	5.92	7.77	2.45	-0.1	5.5	10.32	8.57	3.55	6.7	7.5	13.96	13.20	3.63	2.3	5.3	8.73	9.09	4.91	2.3	5.3	8.73	9.09	4.91	1992																							
4th qtr 1992	14.3	1.7	3.55	6.73	2.94	2.0	-0.4	3.67	4.78	1.03	10.7	9.6	8.98	7.34	2.67	-0.1	5.5	10.77	8.26	3.72	2.8	5.8	14.64	13.84	3.68	2.7	4.5	7.68	8.45	4.94	2.7	4.5	7.68	8.45	4.94	4th qtr 1992																							
1st qtr 1993	11.9	0.4	3.20	8.26	2.81	1.8	-0.4	3.29	4.34	1.00	8.8	7.5	8.21	6.87	2.42	1.1	5.4	11.83	7.98	3.38	2.8	6.3	11.88	13.04	3.04	4.3	3.6	6.00	7.92	4.04	4.3	3.6	6.00	7.92	4.04	1st qtr 1993																							
2nd qtr 1993	11.8	0.3	3.18	5.96	2.80	3.2	1.4	3.09	4.55	0.83	8.5	8.6	7.86	6.73	2.24	0.5	3.2	8.01	7.08	3.33	2.4	5.0	10.82	12.49	2.47	4.3	3.6	6.00	7.92	4.04	4.3	3.6	6.00	7.92	4.04	2nd qtr 1993																							
3rd qtr 1993	12.3	1.5	3.18	5.61	2.76	3.6	2.0	2.63	4.25	0.80	9.9	6.2	6.82	6.34	2.01	0.5	3.2	8.01	7.08	3.33	2.4	5.0	10.82	12.49	2.47	4.3	3.6	6.00	7.92	4.04	4.3	3.6	6.00	7.92	4.04	3rd qtr 1993																							
October 1992	14.4	2.0	3.32	6.58	3.02	2.5	-0.6	3.71	4.90	1.04	8.5	10.4	8.95	7.38	2.72	1.8	6.3	11.12	8.43	3.83	5.5	7.3	15.53	14.36	3.86	2.3	5.2	8.49	8.69	4.83	2.3	5.2	8.49	8.69	4.83	October 1992																							
November	14.4	1.8	3.86	6.86	2.94	1.8	-0.6	3.65	4.76	1.05	11.2	8.7	8.94	7.38	2.66	0.4	8.1	8.77	8.14	3.70	2.5	5.8	14.53	13.46	3.48	2.9	4.4	7.32	8.27	4.80	2.9	4.4	7.32	8.27	4.80	November																							
December	14.2	1.4	3.67	6.76	2.87	1.9	-0.4	3.64	4.70	1.00	12.5	8.7	8.03	7.28	2.64	-0.1	5.5	11.35	8.20	3.64	0.4	4.4	13.90	13.46	3.61	2.9	4.4	7.32	8.27	4.80	2.9	4.4	7.32	8.27	4.80	December																							
January 1993	13.4	1.0	3.28	6.59	2.87	2.4	-0.3	3.59	4.55	1.03	8.5	7.7	8.80	7.10	2.58	1.8	5.4	12.16	7.80	3.56	2.2	5.4	12.73	13.46	3.26	4.0	3.3	7.04	8.33	4.48	4.0	3.3	7.04	8.33	4.48	January 1993																							
February	11.5	0.2	3.18	6.25	2.80	2.3	0.1	3.15	4.31	1.01	9.2	7.9	8.59	6.94	2.43	1.0	5.5	12.12	7.76	3.40	2.9	5.3	11.51	13.03	3.01	4.6	3.4	6.23	7.87	4.36	4.6	3.4	6.23	7.87	4.36	February																							
March	10.7	0.1	3.17	5.97	2.78	0.8	-0.4	3.13	4.16	0.97	10.0	7.9	7.98	6.59	2.27	-1.1	5.4	11.27	7.33	3.16	3.5	5.0	11.41	12.06	2.99	4.7	3.6	6.04	7.85	4.24	4.7	3.6	6.04	7.85	4.24	March																							
April	10.8	0.2	3.15	5.98	2.81	2.4	0.5	3.08	4.42	0.85	8.1	8.7	7.92	6.83	2.23	-2.6	3.2	7.64	7.19	3.39	2.3	5.1	10.90	12.50	2.53	4.6	3.5	6.02	7.81	4.08	4.6	3.5	6.02	7.81	4.08	April																							
May	12.0	1.0	3.14	6.02	2.81	3.8	1.5	3.09	4.94	0.82	8.3	8.5	7.52	6.80	2.27	0.5	3.2	7.32	8.95	3.35	3.0	5.1	10.90	12.50	2.53	4.5	3.4	5.96	7.88	4.01	4.5	3.4	5.96	7.88	4.01	May																							
June	12.7	1.4	3.25	5.94	2.90	3.8	1.6	3.11	4.40	0.81	10.1	8.7	7.24	6.57	2.09	-0.8	1.1	8.06	8.72	3.28	3.4	6.5	9.34	11.12	1.99	4.8	3.5	5.91	7.49	4.03	4.8	3.5	5.91	7.49	4.03	June																							
July	12.2	1.6	3.21	5.86	2.78	3.5	1.7	2.93	4.40	0.79	10.1	8.3	6.62	6.34	1.98	-1.4	0.7	7.93	8.33	3.08	5.2	7.9	9.35	10.08	1.85	5.2	3.5	5.91	7.49	4.03	5.2	3.5	5.91	7.49	4.03	July																							
August	11.5	1.6	3.18	5.35	2.73	3.5	2.0	2.98	4.20	0.79	9.6	7.6	6.63	6.18	1.96			7.29	8.12	3.08	5.2	7.9	9.35	10.08	1.85	5.2	3.5	5.91	7.49	4.03	5.2	3.5	5.91	7.49	4.03	August																							
September																																				September																							

Finance-raising company in FBI probe

By Peggy Hollinger

A US company being investigated by the FBI and Florida authorities is offering to help cash-strapped companies in the UK and Ireland raise finance.

Turnberry Underwriters, which now appears to be operating out of Miami, Florida, under the name Bond Street Commercial, has been offering to provide UK and Irish companies

with collateral for bank loans in return for a payment described as a retainer.

This is similar to an advance fee for the procurement of expected finance, which is illegal in Florida but not in the UK.

US authorities estimate that Turnberry, and companies and people associated with it, have taken up to \$30m (£19.8m) in retainers from companies in the US.

They believe that companies outside the US, principally in the UK and Ireland, have paid a further \$5m-10m in retainers.

The Financial Times has talked to a handful of companies which paid retainers of between \$30,000 and \$140,000, in the expectation that the US group would put up collateral against which they could procure finance. But the deals were never completed within the time allotted.

In most cases known to the FT, the companies were alleged to be in default and the retainer was kept by Turnberry, in accordance with the contractual agreement.

At least two people involved in the fund-raising schemes are facing fraud charges in the US on separate matters.

Turnberry has been put in touch with prospective clients by agencies which have placed advertisements in

the business sections of national newspapers, both in the US and UK. These advertisements have proved particularly attractive to small companies desperate for finance.

Banking regulators in the Cayman Islands are now investigating Turnberry's relationship with some of the directors of a bank in their region, Guardian Bank and Trust (Cayman) Ltd, including its chairman Mr John Mathewson.

Britain in brief



UK retailers show 'low' turnovers

UK retailers have "startlingly low" levels of turnover per employee compared with the rest of Europe, according to a survey of 16 countries by the Economist Intelligence Unit.

The report says this implies there is room for workforce cuts because UK companies' margins will come under increasing attack from continental European and US discounters which are entering the market.

Ranking 131 companies by turnover per employee, the unit found that Kwik Save was the highest UK company listed at position 43, with Littlewoods second at 55.

Leading UK food retailers began to feature low down with Asda at 79 and Tesco at 92.

The survey found the most productive retail employees are in Belgium, Ireland, Finland and Norway.

Changes to Banking rules

The amount of business that UK banks can conduct with single clients or business partners will be limited from the start of next year under new EC rules, the Bank of England has announced.

Under the "large exposures directive" no bank will be able to incur an exposure to a single counterparty or group of counterparties that exceeds 25 per cent of its capital base. Exposures that individually exceed 10 per cent of a bank's capital base should not in total exceed 5 times its capital base, the Bank said.

The Bank said that off-balance sheet items, including derivative exposures, would be among the large exposures to be monitored and reported by banks under the new rules. The Bank's supervisory division has issued a notice giving details on the implementation of the directive in the UK.

Miners appeal to Commission

The European Commission was asked yesterday to prevent the UK government from repealing an act which imposes a statutory limit on coal miners working underground.

The National Union of Mine-workers said the measure would erode health and safety provisions and run contrary to the community's framework directive on working time.

In a letter to the commission, Mr Arthur Scargill, NUM president, asked for the matter to be raised as a matter of urgency. The repeal is due to take effect next month.

Some employers 'fear strikes'

One in six of Britain's largest and mostly unionised private sector employers expect to see industrial conflict in their companies over the next twelve months, according to a survey published today by solicitors Dibb, Lupton and Broomhead.

While 16.4 per cent anticipated industrial unrest over the next twelve months, 82 per cent did not.

Large employers are ready to use the law against unofficial strikes. As many as 95 per cent they would do so to stop unlawful picketing while 91.8 per cent said they would act against the trade union.

The survey covered 100 large companies employing a total of 1.5m workers.

Canadian beer breaks the ice

ICE BEER, which became one of Canada's top five beer brands within six months of its introduction this year, is to be launched in the UK today.

Labatt, the Canadian brewer, has signed a distribution agreement with Carlsberg-Tedley for test marketing of the beer in Allied-Lyons' pubs in London, the Midlands and Scotland.

Labatt has invested £13m in developing the product. Since the lager went on sale in Canada in March, the brand has captured 6 per cent of the country's total beer market. The UK is the first market outside North America in which the brand has been launched.

Salmon farmers press for EC action

SALMON farmers in Scotland and Ireland want their governments this week to persuade the European Commission to take action against Norway to stem a new flood of Norwegian salmon onto the EC market, James Buxton writes.

In the past three weeks the price of salmon in EC countries has fallen sharply from previously high levels.

Salmon farmers in Scotland mainly blame an influx of Norwegian salmon, caused by that country's unexpectedly high levels of production.

Some 35,000 tonnes of Norwegian salmon have come onto the EC market, pushing prices down from £3.80 per kilogram (a level at which salmon farming is very profitable) to under £2.50.

In the last few days two Scottish salmon producers have gone bankrupt.

Norwegian output this year may reach 180,000 tonnes, according to the Scottish Salmon Growers Association, compared with original predictions of 120,000 tonnes.

Scottish salmon output is also expected to rise this year to 45,000 tonnes compared with last year's 38,000 tonnes. Meanwhile the main EC markets of France and Germany have been hit by recession.

British and Irish officials are expected to meet the Commission on Thursday.

The issue is complicated, however, by the fact that Norway is not a member of the EC, but has applied to join it.

Broadcasting export strategy sought

By Raymond Snoddy

MR Michael Heseltine, the UK Trade and Industry secretary, has called together Britain's leading broadcasters to try to draw up a co-ordinated industrial and export strategy for the industry.

Those invited include Mr John Birt, the director-general of the BBC, Mr Greg Dyke, chairman of the ITV Association and chief executive of London Weekend Television, Mr Michael Grade, chief executive of Channel 4, Mr Michael Green, chairman of Carlton Communications and Independent Television News, and Mr Leslie Hill, chairman of Central Independent Television.

The emphasis of next week's meeting will be to encourage the export potential of a UK industry seen as high quality and internally competitive. Mr Heseltine's search for an industrial and export strategy could have significant implications for both ITV and the BBC.

The big ITV companies arguing for changes in the rules of ownership to allow the largest nine ITV companies to take each other over see Mr Heseltine as a likely powerful

ally. They argue that ITV is too fragmented to compete internationally. They are opposed by medium-sized companies who emphasise the importance of regionalism. A ministerial committee chaired by prime minister John Major will decide on the ownership issue later this year.

The implications could be just as important for the BBC, whose Royal Charter runs out at the end of 1996.

Mr Heseltine has been looking at the export potential of an integrated BBC with a world-famous brand name and the corporation's plans to take BBC World Service Television around the globe.

Such an approach suggests that although the government will continue to seek maximum efficiency at the BBC, privatisation of its transmitters and of BBC Enterprises, the commercial arm, now seem much less likely.

As a sign of the reduced hostility to the corporation, the National Heritage department has proposed that the BBC licence fee should be linked to retail prices for the next three years - but this has still to be approved by other ministers.



Michael Heseltine has been looking at the BBC's export potential

ID card system considered

THE UK government is considering the introduction of identity cards to help crack down on social security fraud totalling more than £1bn a year, Andrew Fisher writes.

Although ID cards are part of daily life in other European countries like France and Germany, any discussion of their introduction in the UK has raised strong opposition from civil liberties groups.

Responding to weekend reports that Mr John Major, the prime minister, favoured such a scheme, Liberty, the civil liberties group, said ID cards could be used to discriminate against some sections of society.

The Department of Social Security said there were no plans to bring in an ID card system, although this was being looked at as part of a range of measures. The Home Office, whose interests in any ID scheme would cover its impact on crime, terrorism and immigration, also said nothing was planned immediately.

Executives to warn against tax increases

By Peter Marsh, Economics Correspondent

INDUSTRIALISTS are set to put more pressure on the UK government this week to refrain from increasing taxes in next month's Budget.

The message is to be delivered at a private meeting on Thursday between Department of Trade and Industry and Treasury officials and repre-

sentatives of about 20 companies including Grand Metropolitan, T. Unigate, Marks and Spencer, J. Sainsbury, British Steel and Barclays Bank.

The gathering is expected to feature arguments that any rise in taxes in the November 30 Budget - on top of tax increases of nearly £7bn already announced for next April - might damage industrial and consumer confidence

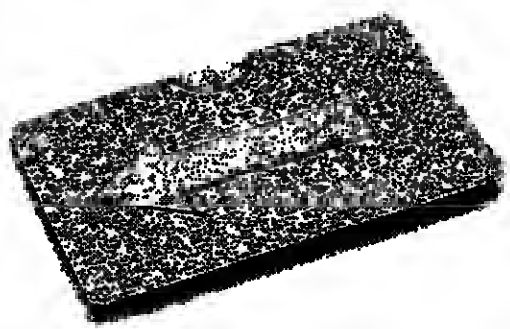
and delay economic recovery. Government figures on Friday showed that the pace of growth in non-oil gross domestic product slowed in the third quarter of this year.

Chairman of Thursday's gathering will be Mr Walter Ellis, economic adviser to Mr Michael Heseltine, the trade and industry secretary. It is being held as part of a general effort by the government to

form closer links with companies to follow better their perceptions about the recovery. The most senior person from the business world will be Mr David Barnes, chief executive of Zeneca, formerly the speciality chemicals subsidiary of ICI. Northern Foods; the Weir pumpmaking company; ICL; Rover and the Meggitt engineering group are due to send their finance directors.

Other businesses being represented at the meeting are Courtaulds Textiles, George Wimpey, and the Post Office. Chancellor Kenneth Clarke is meeting Mr Howard Davies, director-general of the Confederation of British Industry, and Sir Michael Angus, CBI president on Wednesday. They are expected to add to warnings about how tax rises could harm business.

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PEOPLE

Siemens' Dolan signals to Cowes



Siemens Plessey Electronic Systems is one of the largest employers in Cowes, Isle of Wight, but whether Clive Dolan, the company's new managing director, will have much time to indulge in his hobby of sailing is open to question.

Dolan took over the company, which has offices spread over the south of England with outposts in New York and Germany, at the beginning of the month. With 3,500 people worldwide and sales of £300m, it is the UK arm of Siemens' defence electronics group.

His principal challenge is to find new opportunities for growth in a company traditionally tied to the now declining defence market.

Dolan's most recent experi-

skills in multifunction radar - a new kind of system which can combine surveillance, tracking and targeting in a single instrument through ingenious electronic control of the sensing beam. It is also bidding with Racal for "Bowman", the next generation British Army communications system.

Dolan, 47, read applied science at Newcastle University and worked initially for Marconi and Philips with spells in France and the Netherlands, during which he rather took to the continental way of life. He has been with Plessey since 1983 and was involved in repulsing GEC's first bid for the company. But he has no intention of letting work get in the way of the occasional game of rugby, he says.

ence should prove invaluable. Since 1991 he has been managing director of Siemens' newly formed air traffic management division, the fastest growing part of the group.

Siemens Plessey has special

Cohen goes to SGST

Société Générale Strauss Turnbull Securities has hired David Cohen, a City veteran, to help build up its presence in the UK corporate broking business.

Cohen knows all about bull and bear markets, having started out in the City in 1962 as an electricals analyst at Simon & Coates, the now defunct UK stockbroker. In 1969, at the age of 27, he became one of the youngest-ever partners in the firm.

By 1984 he had built up such a reputation for hiring companies to the US that the FT ran a profile on him. In the same year he was one of the senior partners who presided

over the sale of S&C to Chase Manhattan Bank.

For the past 3½ years, Cohen has headed the smaller companies corporate broking unit at Robert Fleming Securities, where his biggest claim to fame was managing the flotation earlier this year of David Lloyd Leisure, the tennis and fitness chain run by the former Davis Cup player.

■ Graham Carter, formerly risk controller at Credit Lyonnais, has been appointed administration director at SHORE CAPITAL STOCKBROKERS.

■ Lawrence Permut, chairman of Stiles Harold Williams, is also appointed executive deputy chairman, and John Scott, md of Stiles Harold Williams, is also appointed md of ALLIANCE & LEICESTER Property Services; Richard

Stapleton, the former group md, has left the company.

■ Frank Watts and Simon Wharmby have joined CHARLES STANLEY; they move from Carr Kitch & Aitken.

■ Shinichiro Ohta, former executive vice-president of Mitsubishi Corporation, has been appointed an adviser to S.G. WARBURG.

■ Rex Harrington has been appointed director, shipping, and Lambros Varavides, assistant director, shipping, at the ROYAL BANK OF SCOTLAND.

■ Malcolm Le May and John Sunderland have been appointed co-heads of BZW's investment banking group recently created within BZW in New York; they move from corporate finance and structured finance respectively, in London.

Former Securiguard duo move into Business Technology Group

Alan Baldwin, former chairman of Securiguard who is also joining BTG, had been approached as a team by Tony Berry and his board. He says he sees BTG as a "platform from which to develop in the service sector". He will, however, be somewhat restricted in his areas of operation by an agreement with Rentokil which lasts until the end of 1994, but says "there are opportunities".

Baldwin's defence against Rentokil's cash bid earned him

Dunkley, former finance director of Securiguard who is also joining BTG, had been approached as a team by Tony Berry and his board. He says he sees BTG as a "platform from which to develop in the service sector". He will, however, be somewhat restricted in his areas of operation by an agreement with Rentokil which lasts until the end of 1994, but says "there are opportunities".

Baldwin's defence against Rentokil's cash bid earned him

a number of friends in City institutions who watched Securiguard's share price rise from 180p before the bid, to the 345p at which it was recommended.

In July Baldwin accepted a £375,000 settlement from Rentokil after the £76m takeover and said it was his intention to acquire companies.

A non-executive director, Bernard Goddall, has resigned and a replacement for him will be appointed in due course. BTG's share price rose 4p to 23p.

CONSTRUCTION

Mivan wins £21m air force project

MIVAN, the Antrim-based international construction and engineering company, has recently been awarded a £21.5m contract by the Royal Thai Air Force.

Mivan will build new accommodation (left) for air force personnel on the Don Muang Air Force Base, 10 miles from Bangkok.

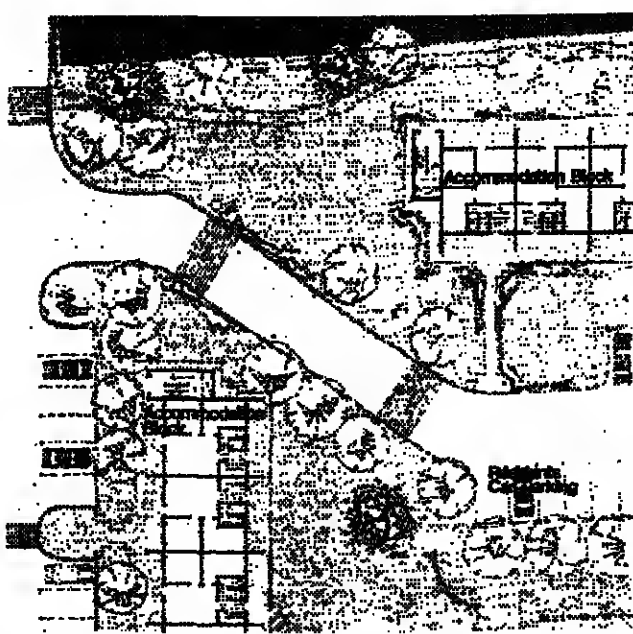
The company is to use its Mascon cellular construction system - originally developed for house construction - for the required 650 apartments.

The apartments will form three five-storey blocks and one 11-storey block.

Mivan will also build additional facilities on the site - swimming pool and a Buddhist shrine.

Thirty of the company's Northern Ireland staff will be drafted in to supervise the project which will employ up to 700 workers. It is expected that completion of work will take 16 months.

Mr Henry Johnston, Mivan overseas managing director, said: "We are delighted to win the contract in the face of heavy international competition and this further reinforces the company's presence in the region."



Lindum heads South

A £10m contract to design and build a new engineering facility for Peter Brotherhood of Peterborough has been given to Lincoln-based LINDUM CONSTRUCTION.

The 147,000 sq ft factory and offices - covering an area the size of three football pitches - will be on a 12-acre site in Werrington, Peterborough, less than two miles from the company's present facility.

Work begins on site this month and is scheduled for completion by October 1994. The factory floor area has been designed to take loads of up to 150 tonnes.

An external feature of the building will be the glass curtain walling, introduced to break up the large expanses of metal cladding.

Design of the 13m-high facility conforms with the string-

ent environmental controls. More than 40 per cent of the contract value relates to electrical and mechanical installation to be carried out by Derry Building Services, part of the Bowmer & Kirkland group based at Derby.

Architects are Benoy, consulting engineers John Gilbert, and Peter Brotherhood's project representatives, Thornton Firkins & Partners.

Trinidad work goes to Wimpey

A £58m scheme to upgrade an oil refinery in Trinidad heads a list of contracts totalling more than £100m awarded to WIMPEY Construction in the past four weeks.

The project - for the Petroleum Company of Trinidad and Tobago - is one of two contracts secured by Wimpey in the area, bringing the total value of new work in the country to £77m.

Mr Dennis Brant, chairman of Wimpey Construction said: "We have been established in the Caribbean for more than 37 years but have seen little activity in the area for the past decade."

"Recently, however, there has been a substantial increase in the construction workload. It is a similar story in other parts of the world, for example, the Middle East and the Far East."

"Wimpey has seen a noticeable upswing in activity in these areas."

The company's other contracts are in the UK. They include three schemes totalling £16m for projects in the retail sector, two health care projects and a £10.5m design and build leisure development in Hertfordshire.

"Retail, leisure and health care remain among the most buoyant areas of activity for the UK construction industry," Mr Brant says.

Sunley posts two new deals

THE SUNLEY TURRIF GROUP has gained two Royal Mail contracts totalling £11m.

The first involves the £5.6m conversion and fitting-out of two buildings, alterations and fitting-out of a third building and the completion of external works over 36 weeks beginning October 4. Architects are WM Saunders Partnership.

The second contract, valued at £5.4m, includes the construction of a sorting and delivery office and road transport workshop. Work is due for completion April 1994.

Sunley is at present working on a £5.2m Royal Mail contract, building a mechanised letter office with ancillary accommodation.

Architects are Abbey Hanson Rowe.

Tarmac to carry out M25 reconstruction

TARMAC CONSTRUCTION has won a design and build motorway maintenance contract worth £11.6m.

The work, awarded by the Department of Transport, involves reconstructing a 5km section of the M25 - the London orbital section.

Repairs on the stretch, between junctions 2 and 3 (Dartford and Swanley), is to begin shortly and is due to be completed in just 15 weeks.

Mr John McFadden, director of operations for Tarmac's large projects division, said: "We are very pleased to have been chosen."

"We will be able to utilise our construction and design experience to ensure that the project progresses speedily and efficiently with the minimum disruption to traffic."

Tarmac is already engaged

on substantial civil engineering design and construct schemes for the River Tees Barrage and an immersed tube road tunnel under the Medway estuary in Kent.

The M25 contract involves resurfacing the largely concrete section of motorway with bituminous materials.

Repairs and maintenance will also be carried out to bridges along the stretch.

Other work includes upgrading safety fencing to current standards and improving or repairing wherever necessary the drainage system of the carriageway.

Kent County Council is acting as agent for the Department of Transport and consultants G. Maunsell and Partners are working for Tarmac on design requirements of the contract.

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Balfour builds in prison

BALFOUR BEATTY has been awarded two contracts worth £9.8m.

The first, for £4.5m, involves the substantial refurbishment of a wing of Pentonville prison - a traditional Victorian galleried block. New services, laundrettes, offices and 172 new cells will be created. Architects are the Halpern Partnership and civil, structural and public health engineering will be led by Warren Picknell Associates.

The second contract, worth £5.3m, involves the refurbishment and extension of the Friars Walk shopping centre in Reading, awarded by AXA Equity and Law Assurance Society. Work involves relocating one retailer, modernising a section of the retail space and refurbishing walkway areas.

Trafalgar takes on MoD job

TRAFALGAR HOUSE CONSTRUCTION has won a £31m contract to redevelop the Royal School of Signals at Blandford Camp in Dorset for the Ministry of Defence.

The work is part of MoD Options for Change programme, which will see the trade training for Royal Signals' soldiers transferred from Catterick in Yorkshire to Blandford.

The project will include new and refurbished accommodation for junior ranks as well as training and ancillary facilities.

Trafalgar also has an £8.7m contract to oversee the redevelopment of the base at Catterick.

Work involves accommodating two army regiments returning from Germany.



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CITY OF VIENNA
USD 75,000,000 8% Notes 1986/96

Notice is hereby given that pursuant to section 5(a) of the Terms and Conditions of the Notes, City of Vienna will redeem on 14th November 1993 USD 15,000,000 principal amount of said 8% Notes due November 14, 1996. Serial numbers of drawn Notes to be redeemed are set forth below on groups from one number to another number, both inclusive:

1	7	2149	2157	4299	4307	6449	6457	8599	8607	10749	10757	12899	12907
18	57	2199	2207	4349	4357	6489	6497	8639	8647	10789	10797	12939	12947
68	107	2219	2227	4369	4377	6519	6527	8669	8677	10819	10827	12969	12977
118	157	2269	2277	4419	4427	6569	6577	8719	8727	10869	10877	13019	13027
168	207	2299	2307	4449	4457	6599	6607	8749	8757	10899	10907	13049	13057
218	257	2349	2357	4499	4507	6649	6657	8799	8807	10949	10957	13099	13107
268	307	2399	2407	4549	4557	6699	6707	8849	8857	10999	11007	13149	13157
318	357	2449	2457	4599	4607	6749	6757	8899	8907	11049	11057	13199	13207
368	407	2499	2507	4649	4657	6799	6807	8949	8957	11099	11107	13249	13257
418	457	2549	2557	4699	4707	6849	6857	8999	9007	11149	11157	13299	13307
468	507	2599	2607	4749	4757	6899	6907	9049	9057	11199	11207	13349	13357
518	557	2649	2657	4799	4807	6949	6957	9099	9107	11249	11257	13399	13407
568	607	2699	2707	4849	4857	6999	7007	9149	9157	11299	11307	13449	13457
618	657	2749	2757	4899	4907	7049	7057	9199	9207	11349	11357	13499	13507
668	707	2799	2807	4949	4957	7099	7107	9249	9257	11399	11407	13549	13557
718	757	2849	2857	4999	5007	7149	7157	9299	9307	11449	11457	13599	13607
768	807	2899	2907	5049	5057	7199	7207	9349	9357	11499	11507	13649	13657
818	857	2949	2957	5099	5107	7249	7257	9399	9407	11549	11557	13699	13707
868	907	2999	3007	5149	5157	7299	7307	9449	9457	11599	11607	13749	13757
918	957	3049	3057	5199	5207	7349	7357	9499	9507	11649	11657	13799	13807
968	1007	3099	3107	5249	5257	7399	7407	9549	9557	11699	11707	13849	13857
1018	1057	3149	3157	5299	5307	7449	7457	9599	9607	11749	11757	13899	13907
1068	1107	3199	3207	5349	5357	7499	7507	9649	9657	11799	11807	13949	13957
1118	1157	3249	3257	5399	5407	7549	7557	9699	9707	11849	11857	13999	14007
1168	1207	3299	3307	5449	5457	7599	7607	9749	9757	11899	11907	14049	14057
1218	1257	3349	3357	5499	5507	7649	7657	9799	9807	11949	11957	14099	14107
1268	1307	3399	3407	5549	5557	7699	7707	9849	9857	11999	12007	14149	14157
1318	1357	3449	3457	5599	5607	7749	7757	9899	9907	12049	12057	14199	14207
1368	1407	3499	3507	5649	5657	7799	7807	9949	9957	12099	12107	14249	14257
1418	1457	3549	3557	5699	5707	7849	7857	9999	10007	12149	12157	14299	14307
1468	1507	3599	3607	5749	5757	7899	7907	10049	10057	12199	12207	14349	14357
1518	1557	3649	3657	5799	5807	7949	7957	10099	10107	12249	12257	14399	14407
1568	1607	3699	3707	5849	5857	7999	8007	10149	10157	12299	12307	14449	14457
1618	1657	3749	3757	5899	5907	8049	8057	10199	10207	12349	12357	14499	14507
1668	1707	3799	3807	5949	5957	8099	8107	10249	10257	12399	12407	14549	14557
1718	1757	3849	3857	5999	6007	8149	8157	10299	10307	12449	12457	14599	14607
1768	1807	3899	3907	6049	6057	8199	8207	10349	10357	12499	12507	14649	14657
1818	1857	3949	3957	6099	6107	8249	8257	10399	10407	12549	12557	14699	14707
1868	1907	3999	4007	6149	6157	8299	8307	10449	10457	12599	12607	14749	14757
1918	1957	4049	4057	6199	6207	8349	8357	10499	10507	12649	12657	14799	14807
1968	2007	4099	4107	6249	6257	8399	8407	10549	10557	12699	12707	14849	14857
2018	2057	4149	4157	6299	6307	8449	8457	10599	10607	12749	12757	14899	14907
2068	2107	4199	4207	6349	6357	8499	8507	10649	10657	12799	12807	14949	14957
2118		4249	4257	6399	6407	8549	8557	10699	10707	12849	12857	14999	15000

USD 45,000,000 nominal amount of the Notes will remain outstanding after November 14, 1993. Payment will be made at the office of the Paying Agents upon surrender of the Notes together with all unmatured coupons, appearing thereon, failing which the face amount of the missing unmatured coupons will be deducted from the principal amount due for payment.

BANQUE GÉNÉRALE DU LUXEMBOURG
Fiscal agent

Christopher Lorenz sheds fresh light on strategic alliances

A meeting of minds

Common sense would seem to support Sir Colin Marshall, chairman of British Airways, in his declaration that a strategic alliance between two companies is more likely to last if at least one of them has an equity stake in the other.

It would appear obvious that such a link not only increases the partner's influence, but also makes it more likely that both sides will make an all-out effort to resolve any problems which arise, rather than just abandoning their collaboration.

Sir Colin's comment was made in response to this month's deal between Lufthansa and United Airlines. Initially, this is merely a marketing arrangement. But United's redoubtable boss, Stephen Wolf, seems to agree with Marshall, since he wants to buy shares in the struggling German airline when it is privatised next year.

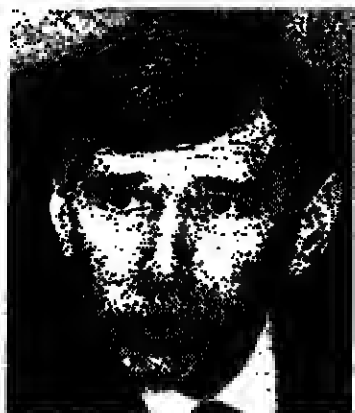
Whatever the past experience of BA and United may be - including an abortive attempt to ally with each other - their bosses are seriously misguided on the matter, according to Jordan Lewis.

Lewis is an alliance expert who flies constantly around the world from his Washington base advising large companies how to get together, repair a shaky relationship, or end it with the minimum of pain. His hands-on book on alliance management, *Partnerships for Profit*, has been translated into 10 languages, including Japanese.

Among a catalogue of general misconceptions about how to mount, manage and protect alliances, Lewis notes the "equity stake" issue pretty high. Its popu-



Sir Colin Marshall



Stephen Wolf

larity with many airlines "reflects a misunderstanding of alliances", he says.

The truth, he claims, is that "alliances survive as long as each company regards the other as its best partner. Many equity alliances have ended, usually because that condition was no longer met. But many non-equity alliances have continued for years because it continued to be met". One instance is the link between GE of America and France's Snecma in aero engines, which is now more than 20 years old.

Lewis's comments were made just after the Lufthansa-United announcement, at a two-day Management Centre Europe briefing on alliances.

His other tips included the following points:

- Mutual need. Controversially, Lewis says this is much more

important than who controls an alliance. Each partner must take what steps it can to ensure that the other continues to need it.

- Shared objectives. Most companies are used only to buy-sell relationships. In alliances, they must agree clearly "on what they intend to maximise together".

- Shared risk. Both (or all) partners must accept the bearing of a considerable degree of shared risk - it cannot be loaded onto one partner, "as in other commercial relationships". The risks can be personal, as well as economic.

- Relationships and trust. These are at the heart of the success of an alliance, "but companies don't invest nearly enough effort in building them - which takes years". Many partners don't realise the need for investing in relationships until they hit a significant problem, says Lewis. "They don't think that

way - they think in terms of deals."

Trust starts between the people immediately involved, "and hopefully spreads slowly into both organisations". Hence Lewis's insistence, in contrast with other alliance consultants, that it is impossible to put everything on paper at the start. "You can't write contracts about enthusiasm", he says. "You need a keen, two-company team. But I don't see that very often".

When GE and Snecma got started, there were only two people who trusted each other, but they gradually built this deeper and deeper in each organisation.

- Disputes. Partners should agree at the start that "tough issues" can and must be raised with the other side.

- Exit strategy. This also should be negotiated upfront, in case mutual need disappears, or the shared objectives change. "Otherwise you end in court".

Lewis's emphasis on deep relationships should not be taken as advocacy of links between parent companies, such as the almost barren one between Daimler Benz and Mitsubishi. He warns that "corporate-to-corporate alliances are a mistake - they should be between business units".

Extolling the general advantages of what he calls "alliance-thinking", Lewis says it "forces companies to focus themselves - you can't be good at everything". It reinforces the growing tendency of management to narrow the definition of their companies' "core competences", and to "outsource" or "partner" the rest of their activities. *Free Press/Macmillan £22.95.*

TIPS FROM THE TOP

The four principles of corporate giving

Sir Geoffrey Mulcahy, executive chairman of Kingfisher, offers advice on selecting good causes

There are more than 170 registered charities in the UK and many of them, in marketing terms, have advanced some way beyond the box-ratting stage. Alongside this growing sophistication of demand is our corporate need to make donations work positively for us. So we have had to think clearly about what we are doing in this department and why.

In many companies charitable involvement is moving out of the chairman's office - where it took the shape of the traditional chairman's fund - and into the marketing and human resources departments.

Certainly, the causes backed by Kingfisher have a wider scope and sharper focus than they did 10 years ago. We have moved from the idea of "charitable donations", through "community investment" to "corporate social responsibility", which embraces issues such as employment practices and the environment.

Underpinning our policy is the belief that a healthy business needs a healthy community. Policy is directed by a social responsibility committee, which includes our corporate affairs and human resources directors, as well as one of our non-executive directors, Lady Howe. It meets quarterly and each of our businesses reports to it twice a year.

As a group, Kingfisher spent around £1.3m on social responsibility programmes in 1992. One of the things our strategy has to do is take account of the individual needs of our relatively diverse business units, while maintaining an overall corporate shape and consistency.

We have four guiding principles. The first and foremost is that any issue we support must be relevant to our mainstream commercial objectives. It may be by addressing social problems which ultimately affect our profitability, for example, or by improving our corporate reputation. We support

We are helping fund a study on attitudes of, and towards, gay men and lesbians in the workplace



crime prevention because this ties in with the high street environment. The safer people feel, the more likely they are to come out and shop.

The second principle is that we are very clear about the target audiences we are trying to reach.

While our businesses will focus cause-related marketing on their customers, our audiences at the centre include opinion formers, shareholders, employees and national and local government. We support women's issues, because two-thirds of our employees are women. We are also active on critical health issues and education, because these too affect our employees.

Principle number three is to limit ourselves to a manageable number of issues instead of trying to cover the field.

Finally we try to build up a leadership position, to give us a competitive edge with particular target audiences. This may be by anticipating issues that will become important, or by not shrinking from those that may prove controversial. We are helping, for example, to fund a Stonewall study on attitudes of and towards gay men and lesbians in the workplace.

It is important to recognise that the objectives of a voluntary

organisation are different to those of a commercial one. The essence of successful projects is to identify the mutual benefit for each of those involved and then for them to work in partnership. Once we have identified a particular cause - such as homelessness or equal opportunities - choice of project becomes the next key step. This is as important as the choice of charity, which must be well-run and have an acceptable brand.

We will ask ourselves how material the project is to our business objectives. How innovative is it? What value can we add? How much support do they want, relative to what we can afford? We will look at the quality of the organisation's management and operating plan and at how they will evaluate and report back. We may also seek the attitudes of the relevant government department.

Pressure from public figures and other business people to support pet projects can be considerable. Where the project has no relevance to our commercial objectives, policy dictates we should decline, but some occasionally sneak through. I'd prefer not to list them here!

Next Monday: Henry Wendi of SmithKline Beecham on how to handle a shareholder meeting.

The Russians are coming

British-based companies seeking to develop their sales or establish an operating presence in Russia, the Ukraine and the other independent republics could do worse than contact Philip Crossland.

The ex-chairman of Rascal Chubb - he left the group in April last year - is running a scheme aimed at training young managers from the former Soviet Union.

Similar to an initiative organised by the Koerber Foundation in Hamburg, it has three elements: ● Selection process followed by English language instruction and proficiency testing in Moscow (funded by the Reform Management Foundation, a Moscow institute).

- Management instruction in the UK. A seven-week course at Kingston University designed to provide participants with a solid foundation in the theory and practice of management and an understanding of the market economy.

- Secondment to a western company for approximately three to nine months.

The first 10 managers - whose

backgrounds are a mixture of industrial and commercial - have just completed the first part of their course. They are now set to join the participating companies, which include National Power, Sea Containers, Bristol Myers Squibb, the Wellcome Foundation, and the Anglo/French computing services group Sema.

Crossland, who says the benefit for companies will be a greater

understanding of business opportunities in the new states, is eager to hear from potential sponsors. His aim is within two years to match the Koerber Foundation, which will have 80 Russian graduates passing through its doors in 1993. "We are dealing with western companies which already have operations in Russia, or who just see Russia as a prospective market," he explains, "but we are happy to consider companies which have a joint venture and want to put one of their own Russians through the programme."

Crossland can be contacted on 0420-37251 (Fax 0420-541067)

Tim Dickson

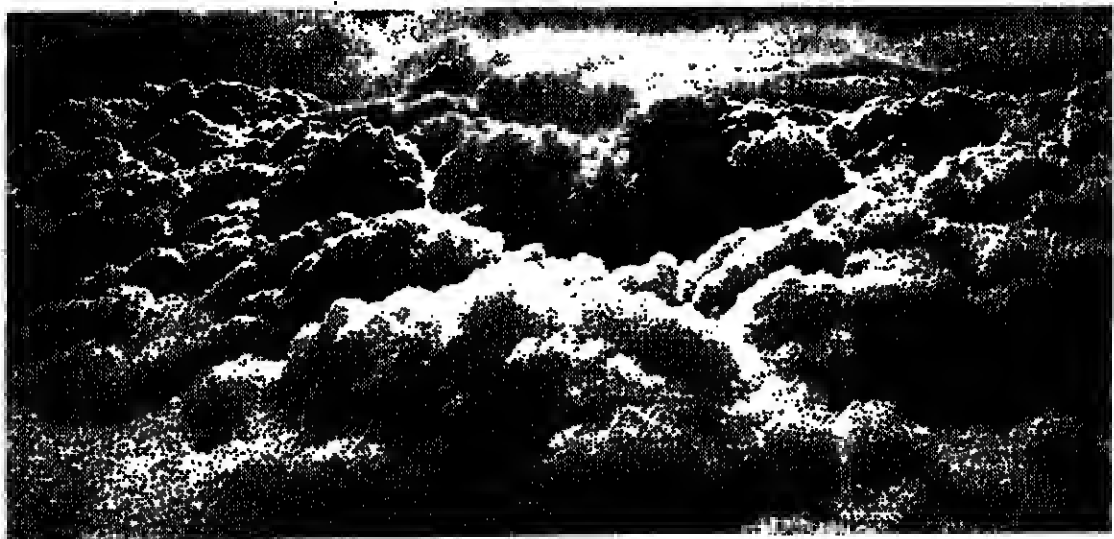
THE HAWKER MAY NOT BE AS EXCITING AS

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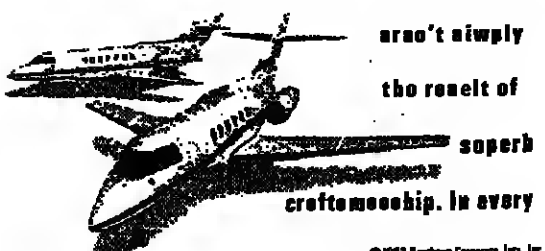
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THE WEEK AHEAD

ECONOMICS

European statistics in focus

THIS IS a busy week for European economic figures with several statistics likely to throw light on the state of the recession affecting many European Community countries.

Most economists are forecasting that German inflation in October fell below 4 per cent. Import price figures are also out this week and are expected to reflect the appreciation of the D-Mark which has led to virtually continuous import price deflation.

In France unemployment figures on Friday will highlight the wisdom of last week's French rate cut by nudging closer to 12 per cent. France has one of the highest rates of unemployment among OECD countries. The jobs total has risen by an average of more than 30,000 a month since the start of the year.

The other main economic highlights follow. Figures in brackets are the median of economists' forecasts from MMS International.

Today: EC, finance ministers meet. US, September existing home sales, October 11-20 car

sales (8.8m), truck sales (5m); Treasury secretary Bentsen addresses Centre for National Policy.

Korea, North-South Korea talks. Taiwan, September M2. Tomorrow: US, October consumer confidence (64.5); Q3 ECI (up 0.8 per cent on quarter); Johnson Redbook week ended October 23. Japan, August coincident index, leading diffusion index.

UK, Q4 Confederation of British Industry industrial trends survey. Belgium, EC foreign ministers prepare for October summit.

Australia, Federal parliament sits. Wednesday: US, September durable orders (up 0.3 per cent), durable shipments.

Japan, September retail sales (down 5.1 per cent on year).

Germany, Bundesbank repo results in Frankfurt. Canada, September industrial production index (up 0.2 per cent), raw materials price index (up 0.7 per cent).

Australia, Q3 CPI (up 0.7 per cent on month, up 2.5 per cent

on year). Thursday: US, Q3 advance GDP (up 2.7 per cent), advance GDP deflator (up 2 per cent); initial claims week ended October 23 (350,000); state benefits week ended October 18; money supply data for week ended October 18.

Japan, September industrial production (up 0.7 per cent), shipments. Friday: US, September personal income (up 0.3 per cent), September PCE (up 0.4 per cent); October Chicago NAPM; Michigan sentiment - final, export price index, import price index; October agricultural prices; September bank credit; September C&I loans.

Japan, October CPI (up 1.3 per cent on year), excluding perishables (up 1 per cent on year); September CPI - nation (up 1.5 per cent on year), excluding perishables (up 1.1 per cent on year); September unemployment rate, construction orders, housing starts (up 9.8 per cent on year), construction starts.

France, September unemployment rate (11.8 per cent).

Canada, August real GDP (up 0.3 per cent on month), employment earnings.

Belgium, special EC summit. During the week: Germany, October cost of living for three lands; September Ifo business climate; GFK construction climate; September import prices (down 0.4 per cent on month); October preliminary cost of living (up 0.2 per cent on month, up 3.8 per cent on year).

Italy, August wholesale prices index (up 6 per cent on year), producer prices index (up 4.3 per cent on year); September bank lending (up 5.9 per cent on year), hourly wages (up 2.6 per cent on year), balance of payments (1.1 trillion deficit), official reserves (1.73 trillion).

Spain, September budget balance (P250bn deficit); August industrial production (down 4.8 per cent); September trade balance.

Norway, October unemployment rate (5.2 per cent).

RESULTS DUE

EST. the business services group in the latter stages of a three-year restructuring, is expected to report interim pre-tax profits of about \$40m on Monday. Now that the group is better managed, cash is being generated and its balance sheet is under control, investors will focus on whether 1993 has yet become

lated a plan that will inject some more excitement into its portfolio of businesses. Wellcome, the pharmaceutical group, reports full-year results on Thursday. Analysts expect pre-tax profits to come in at better than \$200m, compared with \$200m last year. The company will benefit

substantially from favourable exchange rates, as attention will be focused on underlying sales growth. Of particular interest will be the progress of Zovirax, the shingles and herpes treatment that is Wellcome's best-selling medicine. Imperial Chemical Industries, the UK's

largest chemical group, reports its third-quarter results on Thursday. The group is expected to report pre-tax profits of between \$100m and \$120m during a difficult three months. Demand on the continent was slow during August, and recovery in the UK and US has been hesitant.

PARLIAMENTARY DIARY

MONDAY October 25
Committee: Questions to National Heritage Ministers and the Chairman of the Duchy of Lancaster. Debate on Public Accounts Committee reports.

TUESDAY October 26
Committee: Health questions. 3.15pm Questions to the Prime Minister. Debate on Management and Administration of Safety and Health at Work.

Regulation, Education and Libraries (North-land) Order. Education (School Teachers' Pay and Conditions) Order.

Debate on the report of the Royal Commission on Criminal Justice. Select Committee: National Heritage, Employment, Treasury and Civil Service sub-committee.

WEDNESDAY October 27
Committee: Health questions. Debate on Labour on the Civil Industry. Debate on the Civil Industry. Debate on the Civil Industry.

SELECT COMMITTEES: Foreign Affairs, Agriculture, National Heritage, Social Security, Transport, Education, Treasury and Civil Service.

THURSDAY October 28
Committee: Agriculture questions. 3.15pm Questions to the Prime Minister. Debate on the Prevention of Terrorism (Provisional Detention) Bill.

FRIDAY October 29
Committee: Health questions. 3.15pm Questions to the Prime Minister. Debate on the Prevention of Terrorism (Provisional Detention) Bill.

DIVIDEND & INTEREST PAYMENTS

TODAY
Alpha 0.5p
British Petroleum 1.5p
Black & White 1.7p
British Airways 0.5p
British Telecom 1.5p
British Waterways 0.5p
British Airways 0.5p
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UK COMPANIES

TODAY
Company Meetings: G. Japan Inc. Ltd., 100, London Wall, EC2A 4PU.
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CONFERENCES & EXHIBITIONS

OCTOBER 26-30
Oman Exhibition
World about downtown in Europe? Look East in Oman. It's at Arab-British Chamber of Commerce, 6 Belgrave Square, London, 10am - 4pm. Business opportunities beckon, and so does a daily draw Gulf Air return ticket London-Muscat. Tel: 071 235 4363

OCTOBER 28 & 29
Fund Management - The Issue and Opportunities
Win Bischoff, Haruko Fukuda, James Schlesinger, Albert Roca Goobey and Stanley Yashukov are among the distinguished speakers at this topical conference on a vital industry. Exel Financial and Cityforum sponsor with Sun Microsystems and The City Research Project support. Contact: Cityforum Ltd. Tel: 0225 466744 Fax: 0225 442903

NOVEMBER 4
Goode Committee Report
Professor Roy Goode (Chairman), and leading business experts will discuss future role of trustees/creditors/liquidators/underwriters/suppliers - who owns them? employer responsibilities; compensation schemes; future of the Goode Committee Report. Few places remaining. Telephone: Charlotte Thornton Tel: 071 637 4383 or Fax 071 631 3214

NOVEMBER 11
Combating Fraud
A Systems Perspective
P. Michael Levi, Mike Hendry & Graham Jones (Keynote Address) will discuss the impact of fraud on the UK economy and the role of the British Retail Consortium Crime Initiative. Few places remaining. Tel: 011 637 4383 or Fax 071 631 3214

NOVEMBER 16-19
Autotech '93
The Automotive Technology Event, organised by Engineers for Engineers, Trading Strategies, Forward Arbitrage, Congress, Conference and Exhibition, will present the latest in automobile technology. Enquiries: Roger West - Conne Exhibitions Tel: 021 780 4141 (Ext 2663) BIRMINGHAM

NOVEMBER 17
Foreign Exchange Options Course
Intensive one-day course covering various aspects of the FX Options Market. This international event will include a variety of speakers, including: Michael Levi, P. Michael Levi, Mike Hendry & Graham Jones. Contact: Peter Barnes, The Information Resource Centre. Tel: 081 871 2546

NOVEMBER 25
Building tomorrow's brands - the future role for advertising
Campaign presents a one day conference for senior marketers and agency directors. This important event will give clients and agencies the opportunity to debate the future role of advertising within a changing brand environment. Contact: Katie Beckett Tel: 0932 828082 Fax: 0932 828081 LONDON

NOVEMBER 25
Making People-Friendly Towns
A Conference in Memory of Francis Tibbalds. Cost £90.00, any surplus proceeds will go to The Francis Tibbalds Trust. Speakers include Martin Bradbury, Tony Williams, Les Sparks, Rob Thompson, Andy Karaki and Kevin Murray. Contact: Elaine Taylor Tel: 021-331 5112 Fax: 021-335 9915 BIRMINGHAM

NOVEMBER 1-3
City of London Imaging Exhibition
Canon Information Systems present their latest optical and micrographic filing systems including the UK's most popular electronic filing solution - the Canonfile 200 - with full in-house capability. Open 9.30 am - 5.30 pm. Skimmers Hall, 89, Dowgate Hill, EC4A. Apply for tickets stating preferred date and time. Tel: 0293 561180 Fax: 0293 333555 LONDON

NOVEMBER 4
Interactive Multimedia in Europe
21 leading industry experts debate key issues shaping the future of this nascent industry. Topics: setting the standards for IM development; interactive television; creating demand for interactive programming; finding the capital to fund the future. Contact: Patricia Bayliss, Kagan World Media, Ltd. Tel: (071) 371 5880 Fax: (071) 371 8715 LONDON

NOVEMBER 11
VAT Intelligence Conference
CAF Royal, London VI
Featuring VAT issues for newspapers and publishing, single market implementation, VAT on land and property, etc. Price: £220 plus VAT. Contact: Dave Conferences 0800-289520 LONDON

NOVEMBER 12 & 13
Annual Company Report
FRS, FRS 3, Off Balance Sheet Finance, Fair Values, Mergers Acquisitions and Goodwill, Related Party Transactions, Urgent Issues Task Force and Review Panel, Cadbury and ASB's Operating and Financial Review. CPB 16 points. Contact: Asha Peters IBC Tel: 071 637 4383 Fax: 071 631 3214 LONDON/EDINBURGH

NOVEMBER 15-18
Understanding Data Communications
This intensive seminar will take you from the basics of data communications to the most advanced implemented today - in just 2 days. Designed for all who require an explanation of the many acronyms and complexities of today's technologies and to relate them to the business need. Contact: Peter Barnes, The Information Resource Centre. Tel: 081 871 2546 LONDON

NOVEMBER 18
Risk and Reward in the Public Sector
Sir Iain Rogers Freeman, MP, is the keynote speaker at this conference which focuses on the valuation of risks and the levels of rewards for customers, public, suppliers, concessionaires and contractors. Contact: Joella Marsh, British Public Water Association. Tel: 0784 452748 LONDON

NOVEMBER 18
Achieving Superior Corporate Performance with IT
An Exclusive Seminar with Paul A. Strassman. A day with one of the world's most sought-after experts on IT, investment and strategy. You will discover how to formulate, structure and gain acceptance for policies which contribute to the achievement of corporate objectives. Contact: Business Intelligence Tel: 081-544 1830 Fax: 081-544 9020 LONDON

NOVEMBER 22 & 23
The Fifth FT Petrochemicals Conference
The aim of this year's meeting is to provide a high-level forum to discuss the challenges currently facing the petrochemical industry and examine developments in key markets. Enquiries: Financial Times Tel: 071-814 9770 Fax: 071-814 9770 LONDON

NOVEMBER 16-17
BPR 93
The 1st annual conference and exhibition on Business Process Re-engineering. Conference outlining the opportunities for using a process view of your business. Speaker from leading companies in the UK & US outline how business re-engineering has enabled them to achieve major improvements in corporate performance. Contact: Business Intelligence Tel: 081-544 1830 Fax: 081-544 9020 LONDON

NOVEMBER 16-18
Introduction to Foreign exchange and money markets
Highly participative training course covering traditional FX and money markets (Sterling and Eurocurrency). For Corporate executives, bank dealers, marketing executives, financial controllers, systems and support personnel. £440 + VAT. Lyndon David International Ltd. Tel: 0959 565820 Fax: 0959 565821 LONDON

NOVEMBER 16-17
Photocopying Industry
CPBFSB 94 day conference provides a platform for views from OFT, office managers, publishers and business companies on current and future market practices. Contact: Georgina Kingsley, CBI Conferences Tel: 071 379 7400 Fax: 071 497 3646 LONDON

NOVEMBER 16-17
Water: Paying for Quality
Following the report on the setting of the new price limits for the water industry, delegates will be given the opportunity to debate on the most up-to-date issues arising with our distinguished panel of speakers from a cross-section of the Water Industry. Contact: Claire Meekins, The Water Industry Conference, Tel: 071-430 1076 Fax: 071-430 1076 LONDON

NOVEMBER 16-18
The Third Total Quality Show
Exhibition and extensive supporting seminar programme including one day seminar from Honeywell Group A Night's Sleep, Land Rover, Barleyst Computer Operations, OHL International and Hambros Bank. Tel: 071 233 1869 for details LONDON

NOVEMBER 23
Europe In Focus: Planning for Business Success in an Unsettled Continent
A Henley Centre Conference. This conference is designed to help companies address central organisational and marketing issues in a troubled, post-Maastricht Europe. A Henley Centre guide to strategy opportunities. Tel: 071 333 9961 (Stamach Salary) LONDON

NOVEMBER 23
Computer Litigation - How to Protect your Interests and How to Obtain Redress
Examines the range of actions most frequently brought including breach of contract and copyright. Also new areas of litigation under Data Protection Act and EC Competition Law. Contact: Linda McKay, IBC Tel: 071 637 4383 Fax: 071 631 3214 LONDON

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Business in Britain Exhibition & Conference
A 300 stand exhibition and 75 seminar conference. A one-stop shop aimed at business managers in companies with up to £25 million turnover. Provides a forum for business advisers and managers planning for and seeking expansion. Opens on Budget Day, 10,000 visitors are expected. Contact: Charles Horner Tel: 071 637 7766 LONDON

NOVEMBER 23
European Home Shopping
US and European experts debate the implications of the new retail revolution. Topics to be covered: in-depth discussion of Europe's electronic retail business; regulating the sale of merchandise in the home; how best to access the consumer; what's more for the electronic retail industry. Contact: Patricia Bayliss, Kagan World Media, Ltd. Tel: (071) 371 5880 Fax: (071) 371 8715 LONDON

NOVEMBER 23
UK Airports Policy Post
Rucote
A conference examining runway capacity issues, slot allocation, the planning and environmental aspects of future airport needs and regional airport privatisation. Speakers include the Minister for Aviation, Sir Han The Earl of Cathness and representatives from BAA, the DfP, British Airways, CAA, Regional Airports, ERM and Coopers & Lybrand. Contact: Iain Dale, The Waterfront Partnership. Tel: 071 730 0430 Fax: 071 730 0460 LONDON

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Computer Litigation - How to Protect your Interests and How to Obtain Redress
Examines the range of actions most frequently brought including breach of contract and copyright. Also new areas of litigation under Data Protection Act and EC Competition Law. Contact: Linda McKay, IBC Tel: 071 637 4383 Fax: 071 631 3214 LONDON

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Samuel Brittan

Theories behind the UK fiscal debate



Should the next UK Budget contain tax increases - or spending cuts - in spite of a modest and fragile recovery from a prolonged recession? Behind this over-familiar question are issues of principle which affect every advanced industrial economy and which have never been resolved since the second world war.

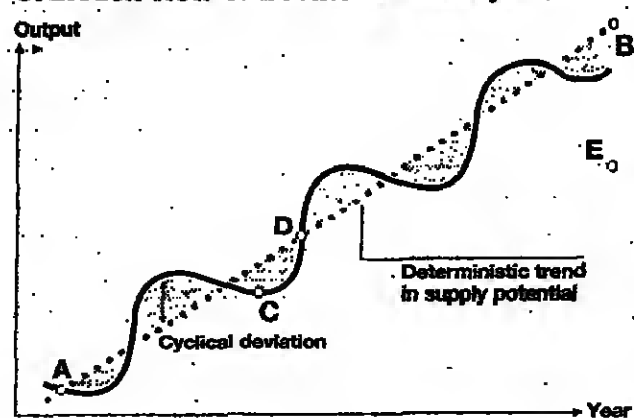
The chart shows a familiar stylised picture of booms and slumps around an upward underlying trend of output. The first point to note is that the upward trend, shown by the dotted line, remains unaffected by fluctuations. Some economic analyses state this explicitly, for instance the Bank of England Working Paper No 18, from which I have adapted the chart.

Granted the central assumption, the risks of doing nothing beyond Norman Lamont's deferred tax increases are overwhelming. The risk of inaction is that the UK will end up with a high burden of interest payments, or even a debt trap in which that burden rises out of control. (The latter is still a remote risk for the UK.)

Suppose that the UK is at point C on the chart after a prolonged recession. Then a relatively lax fiscal policy might make some contribution to ensuring that the economy does indeed recover along the path CD, instead of carrying on longer in a depressed condition below trend. But the gains will be very limited. Output will end up, in any case, in a few years at point B on the trend line. All that chance-lancers can hope to do is to reduce the oscillation of the wavy line around the trend. Given all the difficulties of fine tuning and the well-known dangers of doing "too much too late" or "too little too late", anti-cyclical fiscal policy is as likely to aggravate fluctuations as to flatten them out.

Now, however, let us make the different assumption that the long-run course of output - or supply potential - is not

Orthodox view of booms and slumps



predetermined, but can itself be reduced by a protracted recession or period of below-trend growth. There are many ways in which this can happen. Human beings can lose valuable work habits if unemployed for too long. Investment will be held back if final demand is not there, especially investment in increased capacity. (If you want to show that you are up with economic writing while making these commonsense points, you can use the word "hysteresis".)

Thus, after a prolonged recession, aggravated by perverse fiscal soundness, the economy may not be able to go back to the dotted line and stay there without overheating and explosive inflation. After a series of such episodes the British economy (or more seriously the combined economies of the industrial world) may end up instead at point E. If the trend itself is deflected downwards, national income is lower and less revenue raised at any given tax rates than if the economy had remained on the dotted line.

The argument is still not resolved without some estimate of how much long-run loss of output is incurred by overnight financial policies - that is how far E is likely to be below B. If it is by only a modest amount, it might still be worth correcting the budget deficit in good time to avoid the process of collecting large sums of tax from citizens just to hand them back in the

shape of debt interest. This is a costly irritation involving distortionary taxation which could itself inhibit supply potential. Gevyn Davies, in the Goldman Sachs Economics Analyst which provides the thinking behind the IFS Green Budget, hints at such a cost benefit analysis but does not provide it.

Of course, if the economy continues to face a threat of depression for years on end it would be sensible to try to reduce the deadweight burden of interest payments under national debt, by trying to switch the weight of stimulative policy to the monetary side, that is by cutting interest rates so much that tax rates can safely be edged upwards. But whether one likes it or not, monetary policy has an international dimension; and it would be more prudent to allow fiscal policy to continue to bear some of the weight of economic stimulation until we have seen how far international interest rates are likely to fall, after the German cut.

These are highly important details, which have caused ministerial resignations and prime ministerial tantrums. But the point of principle is whether fiscal policy can affect the path of output to any worthwhile extent; and, if so, whether the short-term path of output can affect the underlying trend. Learned treatises on the need for budget tightening which do not consider these matters should go into the bin.

Mr Siddharth Shriram, a 49-year-old Indian businessman locked in a family row with his 76-year-old father, says: "My father's got the wrong mindset. His mind-set is that elders in this country are always right." Mr Charat Ram, the father, retorts that his son may be "intelligent and dynamic" but should "pay more attention to his responsibilities".

The two men are quarrelling over the running of a loss-making, family-controlled company that makes sewing machines. Previously they might have tried to settle their differences in private. But the onset of economic reform, launched by the government in 1991, is putting pressure on the family-run groups that dominate Indian industry and is straining even strong family loyalties.

The impact of the feud goes beyond the founding family - disrupting relations with other shareholders and outside partners, including foreign companies. Those families that cannot keep their arguments from hurting their businesses will suffer.

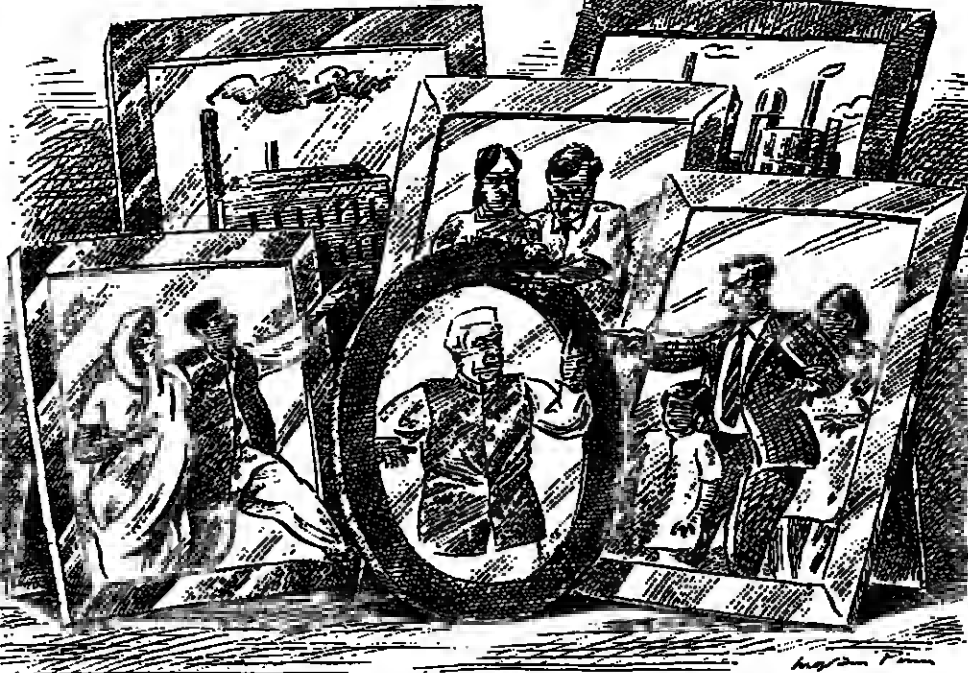
Indian companies are usually run by a patriarch who employs his relatives in an extended family enterprise. In theory, the family lives in harmony and holds everything in common. In practice, there have often been rows, as in family businesses in any country. India is particularly prone to such disputes because it has no primogeniture, so potential heirs squabble over their rights, sometimes for years.

Also, tough tax and foreign exchange control laws discourage families from making cash settlements for fear of disclosing their wealth. So, large numbers of heirs have to be accommodated. Even after a family has launched companies on the stock market and diluted ownership to 20 per cent or less, family members usually dominate management. Directorships, chairmanships and even whole companies are created to accommodate personal whims.

But a generation of businessmen in their 40s, typically heirs of ageing fathers, is challenging these traditional values. These men have often worked abroad and want to promote foreign-trained managers. They believe the principle of family-firm cannot survive the competitive pressures of economic deregulation. The fathers do not necessarily dispute this view. But they often lack the younger generation's sense of urgency. They

Portraits of families at war

India's economic reform is exposing splits in family-run business groups, says Stefan Wagstyl



do not want to retire, at least not yet. Mr T Thomas, a former director of Unilever, the Anglo-Dutch multinational, and a top Bombay business man, says: "The people at the top love to hold on to power."

Four father-son power struggles have come into the open this year. The first, involving Mr Shriram and his father, is being fought in a family with a long history of arguments over sharing its wealth. The most recent split was in the mid-1980s when the group's interests, including sugar, oils, chemicals, textiles and engineering, were divided between Mr Ram and his brother, and Mr Ram's two sons.

Mr Ram got control of Jey Engineering, the troubled sewing machine maker. However, it performed so badly after the share-out that Mr Ram turned to his son Mr Shriram for help. Mr Shriram agreed - as long as he was given a free hand. Mr Ram promised to hand over the chairmanship to Mr Shriram, but has so far not carried out his pledge. Businessmen who know the family say the real bone of contention is

the favour Mr Ram has shown over many years to Mr N B Dongre, a group manager who has been given substantial blocks of shares by Mr Ram. Mr Ram has told journalists that Mr Dongre is "an excellent top-ranking manager" and that Mr Shriram should "take a lesson or two from Mr Dongre". Mr Shriram does not take kindly to such advice.

The atmosphere is even more tense at Apollo Tyres, one of India's largest tyre-makers with annual sales of more than Rs500 crore and the core of a group headed by Mr Ramnath Singh. Mr Singh is Apollo's chairman. But daily management has for the past decade been in the hands of his son - Mr Onkar Singh Kanwar, the vice chairman. Mr Kanwar now wants to take over as chairman but his father refuses to budge.

Mr Kanwar is widely credited with transforming Apollo from a sleepy company into a professionally run unit. He wants to respond to economic liberalisation by concentrating his resources on tyre-making.

His father wants to diversify into fields which are being opened up by deregulation.

The arguments are so bitter that Mr Singh has accused his son of making undisclosed investments such as a Rs50m loan to Mr Harshad Mehta, the stockbroker at the centre of last year's securities market scandal. Mr Kanwar disputes the accusations.

Meanwhile, in the family of Mr Mohan Singh, a 76-year-old Delhi-based pharmaceuticals entrepreneur, the arguments have reached such a pitch that a former chief justice of India has been asked to arbitrate.

The quarrels began three years ago when Mr Mohan Singh divided his business between three sons - Mr Parvinder Singh, the eldest, was given Ranbaxy Laboratories, the family's flagship. However, the gifts came with strings attached. As Mr Mohan Singh says, without a touch of irony: "I gave everybody freedom. The only condition was that they work under my supervision and control."

Mr Parvinder Singh has refused to acknowledge his

father's supremacy. To make matters worse he has managed Ranbaxy Laboratories so well that, with a turnover of Rs50n a year, his business is now twice the size of his two brothers' combined interests.

Mr Kedar Nath Modi, patriarch of one branch of the Delhi-based Modi business family, is embroiled in a similar argument with his middle son Mr Yogendra Modi. The elder Mr Modi divided his businesses - including cement, textiles and chemicals - between his three sons a decade ago but insisted on a redistribution in the late 1980s after it emerged that his middle son was making far more money than his two brothers. Mr Yogendra Modi reluctantly agreed to a new settlement. But once more he proved better at managing his portion than his brothers - so this year his father has tried to impose a second redistribution. Even a former cabinet secretary, called in to arbitrate, has failed to resolve the dispute.

These arguments hurt business performance. At Apollo Tyres, senior managers and accountants are now spending time and energy investigating the charges levelled by Mr Ramnath Singh against his son. At Ranbaxy Laboratories, foreign technology suppliers have expressed concern to the management about the stability of commercial ties.

It is no accident that the most successful family-controlled groups have generally avoided public arguments. Tata, India's largest industrial combine, has for decades fostered good relations between family and non-family managers. Family members have always headed the group, but non-family executives have chaired important operating companies. However, Tata's recent past has also been blighted by a family-style struggle between Mr Ratan Tata, the 56-year-old scion of the founding family who took control in the late 1980s, and a slew of older executives in their 70s. Mr Ratan Tata won.

As long as the family is in charge the temptation remains to put family interests first. As Mr N Vaghul, chairman of the Industrial Credit and Investment Corporation of India, a development bank, says: "The problem is that decisions are geared not to business needs but to family needs." He believes that, as in the west, professionals will gradually take over from family managers. But, judging by this year's rows, not all groups will successfully manage the delicate transition.

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

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Review must protect local democracy

From Mr Brian Briscoe.
Sir, John Ashworth's piece ("Up the pole at the town hall" October 20) is an excellent summary of the problems and costs of the proposed review of local government. There is another point of national importance which may well be overlooked in the piecemeal review of local government structures. Some may argue that unitary structures will improve public accountability. Perhaps so, but only if the gradual accretion of powers from local democracy to Whitehall is halted.

Local government exists to enable local choices to be made

between competing and often irreconcilable demands. How do you choose - within limited budgets - between the needs of the elderly and the young, the demands for better maintenance and nursery schools? It is the job of local politicians to decide these issues and to be publicly accountable for their decisions. As we review structures we need also to buttress local democracy against the tide of Whitehall's bureaucracy.

Brian Briscoe,
Chief Executive,
Hertfordshire County Council,
County Hall,
Hertford SG13 8DE

Reporting reminiscent of an Eisenstein movie

From Mr Bruce Feldman.
Sir, As a new subscriber to the FT in Akashi City, Japan, I was rendered breathless upon receiving my first issues containing the riveting articles by Mr John Lloyd about the clash resulting from the commandeering of the Russian parliament building by foes of President Boris Yeltsin.

Mr Lloyd's vivid writing, reminiscent of an Eisenstein movie, conveyed dramatically the exhilaration to pandemonium to terror to despondency which must have been felt by the participants.

What also emerged clearly in the articles was the considerable danger to which Mr Lloyd must surely have exposed himself in order to bring us these closely observed stories of passing blood-splattered bodies in smoke-engulfed hallways as people run wildly around, and the like.

He deserves a nice tranquil assignment writing about interest rates.
Bruce Feldman,
Clover House, Apt. 210,
16-5 Higashi Hitomaru-cho,
Akashi City, Hyogo-ken 673,
Japan

Capitalist formula for growth

From Mr D B Robb.
Sir, The government having successfully suppressed (but not cured) inflation over a period of some years, now faces the harder challenge of achieving growth without stimulating renewed inflation. If the chancellor were to have the unusual courage to pursue a capitalist solution, the challenge might be met.

My formula would include: sharply lowered interest rates, the main benefit of which would be felt by hard-pressed companies currently working only for their banks; greatly increased and simplified incentives to persuade the earning

population to divert their expenditure from consumer goods into wealth creating investments; and a measure to allow wages paid by private people to be tax deductible, which would be widely interpreted as according benefit to the rich, but which would go a long way towards providing a solution to the unemployment problem. Finally, these measures should be matched by harsh cuts in public sector employment.

D B Robb,
Managing Director,
Marlborough Fine English
Tiles,
Marlborough, Wiltshire

Criticism of banks over-heated

From Mr Adrian Martin.
Sir, Mr Prodhon (Letters, October 22) joins the ranks of those whose criticism of "the banks" contains more heat than light.

Charges levied upon retailers are often far less than 4 per cent and are negotiable. The cost and security implications to such retailers of dealing with increased cash far outweigh the modest costs involved in accepting card payments.

Some finance houses offer credit cards which allow

monthly charging by direct debit and involve no membership fee. Perhaps your correspondent should transfer his allegiance.

Unfortunately, it seems that critics of the banks expect them to provide their services free of charge. Perhaps Mr Prodhon will next be campaigning for interest-free loans?

Adrian Martin,
27 Newlands,
Whitfield,
Dover,
Kent CT16 3NB

High prices are strangling energy-intensive UK manufacturing

From Mr J J Blakey.
Sir, Both Michael Smith in his article "Fears of more pit closures increase", and the Leader "Cutting Coal" (both October 19) failed to make the important connection between the predicament of the coal industry and the unique and untested electricity market structure that the government imposed when electricity was privatised.

As is well known, there is a growing surplus of coal-fired electricity generation capacity. The marginal cost of base-load electricity generation on this capacity is less than 1.5p/kwh, yet new generation capacity costing about 2.8p/kwh is being approved, built and prospering within the "market". How is this possible?

By exercising their dominant market power within a highly

artificial market structure National Power and PowerGen have been able to raise electricity prices far in excess of costs, thus creating headroom for the construction of electricity generation plant using natural gas - the cheapest form of new generation plant.

As a consequence, the UK's asset of large efficient coal-fired power stations fuelled by increasingly competitive UK coal is now being squandered, and energy-intensive manufacturing industry is being strangled by high electricity prices which have increased by up to 70 per cent since electricity was privatised.

It is truly demoralising to see how slowly the government is acting to rectify these self-inflicted wounds - particularly at a time when economic recovery appears to be falter-

ing and there are severe problems with the balance of trade and the public sector borrowing requirement.

It has taken two years of intensive lobbying by large electricity consumers for the Department of Trade and Industry even to acknowledge that there is a problem; and it seems increasingly likely that the government will rely on the Monopolies and Mergers Commission as its agent in effecting a solution. If this were to happen, it is likely to be mid-1995 at the earliest before any material changes will emerge, by which time the manufacturing base will have been further debilitated, and few coal mines will be left in production.

The government has the power to act now in the

national interest to arrest the artificial decline in the use of coal for electricity generation, and to reform the electricity market so that the declining costs of coal in efficient base-load stations are reflected in internationally competitive prices to electricity-intensive manufacturing industry. In essence these were the recommendations of the trade and industry select committee in its report of January 1993, which was largely ignored by the government. Now that the adverse consequences for the coal industry and electricity consumers are clearer, we can only hope that the government will listen and act.

J J Blakey,
Energy Intensive Users Group,
c/o BISPA,
5 Cromwell Road,
London SW7 2HX

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Monday October 25 1993

High times on newer markets

EMERGING markets are becoming popular, and to match the flurry of new funds in the west to cash in on the interest of investors there is a corresponding wave of flotations and bond issues in developing countries. Last week's proposed offer of \$400m worth of shares in Telecomasia in Bangkok is a case in point.

Is this flood of money becoming dangerous? US closed-end funds alone have raised nearly \$40m this year to invest in these suddenly glamorous opportunities. There is an obvious element of marketing man's gloss even in the title emerging markets itself: these are in fact high risk or immature markets, and certain of them, especially in Latin America, have been emerging for at least 150 years.

Behind the hype, however, there are some solid reasons at present for investors to look outside the investment mainstream. Economic growth in the G7 industrial countries has averaged only about 1% per cent a year in the 1990s so far, and many investors in the US, for instance, appear to have concluded that shares on Wall Street have become overpriced in relation to corporate growth prospects. Yet many developing economies have been expanding at 6% per cent or more. There has been a general extension of market-oriented capitalist economic systems. China has been a sleeping giant but is now undergoing rapid change and has far greater potential than the various smaller emerging markets that have occupied investors' attention in the past.

Advanced technology

Improved communications have made it more practical for foreign investors to manage their portfolios in far-flung territories. Advanced technology has also transformed the dealing and settlement aspects of investment in securities, at least in the better markets. A general relaxation of financial restrictions has made the international movement of capital easier. In addition, moves towards privatisation are making available for investment substantial companies of the kind which institutional investors often find more comfortable to hold in their portfolios than they do the creations of colourful local entrepreneurs.

British Gas and the MMC

A YEAR of investigation by the Monopolies and Mergers Commission has not ended debate over the future of the UK gas industry. Argument still rages over the main questions: whether British Gas's domestic monopoly should be abolished and whether the company's trading arm should be divested from its pipeline business. With public consultation on the MMC's recommendations due to end this week, it is unclear what ministers, who have the final say, will decide.

The snag is that there is little support for the MMC's line that British Gas should be broken up in 1997 and its monopoly abolished three to five years later. The Gas Consumers Council is suspicious of both break-up and abolition of the monopoly, fearing they would result in higher prices, particularly for the poorest customers. Independent gas suppliers want the market opened up much sooner than the end of the century but care little either way about break-up. Ofgas, the industry regulator, is taking a similar line reversing its earlier position that break-up was necessary for competition to flourish. The only party reasonably content with the MMC's package is British Gas, which previously argued against being broken up.

In bringing this tangled debate to an end, Mr Michael Heseltine, the trade and industry secretary, should hold fast to the golden rule: competition wherever possible and regulation only where necessary. Competition is the most effective tool for driving costs down and widening consumer choice. Regulation can strangle the benefits competition brings.

Such considerations mean priority should be given to abolishing the domestic monopoly. It is not acceptable for consumers to be denied a choice of gas suppliers until the next century.

Higher bills

But this does not mean concerns over competition leading to higher gas bills can be swept aside. British Gas's changing structure is riddled with cross-subsidies, which would be eroded by competition. Ministers will not want a similar row to that which has greeted the imposition of VAT on fuel bills. An acceptable way must there-

More fundamentally, it is arguable that the whole balance of the world economy is shifting, as developing world labour is harnessed to the exploitation of imported technologies. But whether the political structures in developing countries can cope with the stresses is another matter. "President overthrown" is the kind of news story which tests the nerves of an emerging markets investor: it is even alleged by police in Caracas that stockbrokers and other financial professionals took part in a terrorist bombing campaign in Venezuela this summer in order to force profit-making opportunities in the financial markets.

Potential bubbles

The immediate problem is one of potential bubbles, with market prices being pushed sky-high by the sheer volume of inflowing capital, creating a self-feeding spiral. This appears to be happening in Hong Kong, where after a previous bubble, in October 1987, share prices crashed by 42 per cent in a single day.

Selecting the sound from the unseasoned is no easy task. Once the US was an emerging market, and much more recently so was Japan. But some of today's burgeoning markets will not make the transition to maturity. Values to an overseas investor depend not only upon the achievement of economic growth but on whether a country considers it important to honour liabilities to foreigners. Where hyperinflation exists, as it still does in too many Latin American and east European countries, it is a sign of unwillingness even to recognise domestic obligations. In China, the source of the most ambitious projections among emerging markets promoters, the suspect quality of information makes reading economic developments even more difficult than in London and New York.

The fear is that when money is plentiful investors become less discriminating. Indeed the riskiest markets will, for a while, tend to be the best performers: Nigerian bonds head this year's league table. Investors in emerging markets will find life dangerous in anything but the very short term if they fail to recognise the right balance between risk and return.

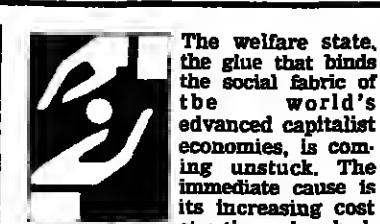
Social obligations

A better approach would be to conduct a proper analysis of which social obligations are desirable and then cost them. At present, there is much fuzzy talk about cross-subsidies between different types of customer but little analysis of how well these are targeted on those most in need.

Once social obligations had been costed, it would be possible to require one supplier to meet the obligations and the rest to pay their share. Initially, it would be natural for the obligations to remain with British Gas. But in the longer run, the role could be put out to competitive tender and given to the operator requiring the lowest subsidy.

The need to keep regulation to the minimum is also the most persuasive reason for splitting British Gas's trading and pipeline operations. Although the MMC probably overstated the case by arguing that self-sustaining competition would be impossible without break-up, such a structure would certainly enhance the prospects of competition. So long as British Gas remains an integrated group, there will be a need for constant regulatory intervention to ensure rivals gain fair access to its pipelines.

Some think it impractical to press ahead with abolition of the domestic monopoly and break-up at the same time. If that were the case, ministers should give priority to opening up the market. But it is not clear why there has to be such a trade-off. Ideally, Mr Heseltine should give the green light to both.



The welfare state, the glue that binds the social fabric of the world's advanced capitalist economies, is coming unstuck. The immediate cause is its increasing cost at a time when budget deficits burden most of the 24 member states of the Organisation for Economic Co-operation and Development.

Rising welfare spending has been a significant factor in the average increase in net state borrowing of 3 percentage points of GDP across the OECD between 1989 and 1992.

In the longer term, there are fears that the cost of the welfare state could become insupportable as populations age over the next 50 years.

While short-term measures may ease the immediate budgetary pressures, more fundamental reforms will be needed if the welfare state is not to undermine the economic performance which has underpinned its enormous expansion since the second world war.

Reform of national welfare systems to bring costs under control is now on the political agenda throughout the OECD, as countries struggle to rein in government spending. Total government spending in the OECD countries has risen from 28.1 per cent of GDP in 1960 to 43.8 per cent in 1990. The biggest element in this growth has been the cost of pensions, healthcare, unemployment benefits and family support. Social security payments more than doubled during this period, from 7 per cent of GDP to 15.4 per cent. Health expenditure also doubled, from 3.9 per cent to 7.8 per cent.

The largest single budget item in most welfare states is the cost of publicly provided pensions. Expenditure has risen rapidly in recent decades, more than doubling its average share of GDP in OECD countries since 1960. Pensions typically account for about a quarter of the increase in public expenditure over this period.

The growth is largely attributable to three factors:

- The increase in coverage as pension schemes introduced after the second world war mature.
- The rise in the number of elderly people.
- Improvements in pension benefits, such as automatic increases to match rising earnings.

The maturing of the welfare state is also a significant factor in the doubling of health expenditure since 1960. Countries such as Spain, Ireland and the Netherlands have been extending their public healthcare systems to provide universal coverage.

As with pensions, health systems have become more generous in the wake of economic growth - for example, including grafts and transplants that were previously regarded as experimental. The ageing of the population has also contributed to rising costs, though not as much as for pensions.

Rising unemployment has added to the cost of the welfare state in both unemployment benefits and general family support for low-income families. But it has also helped to push up the budget for sickness and invalidity benefits, which often offer an escape route into early retirement for older workers.

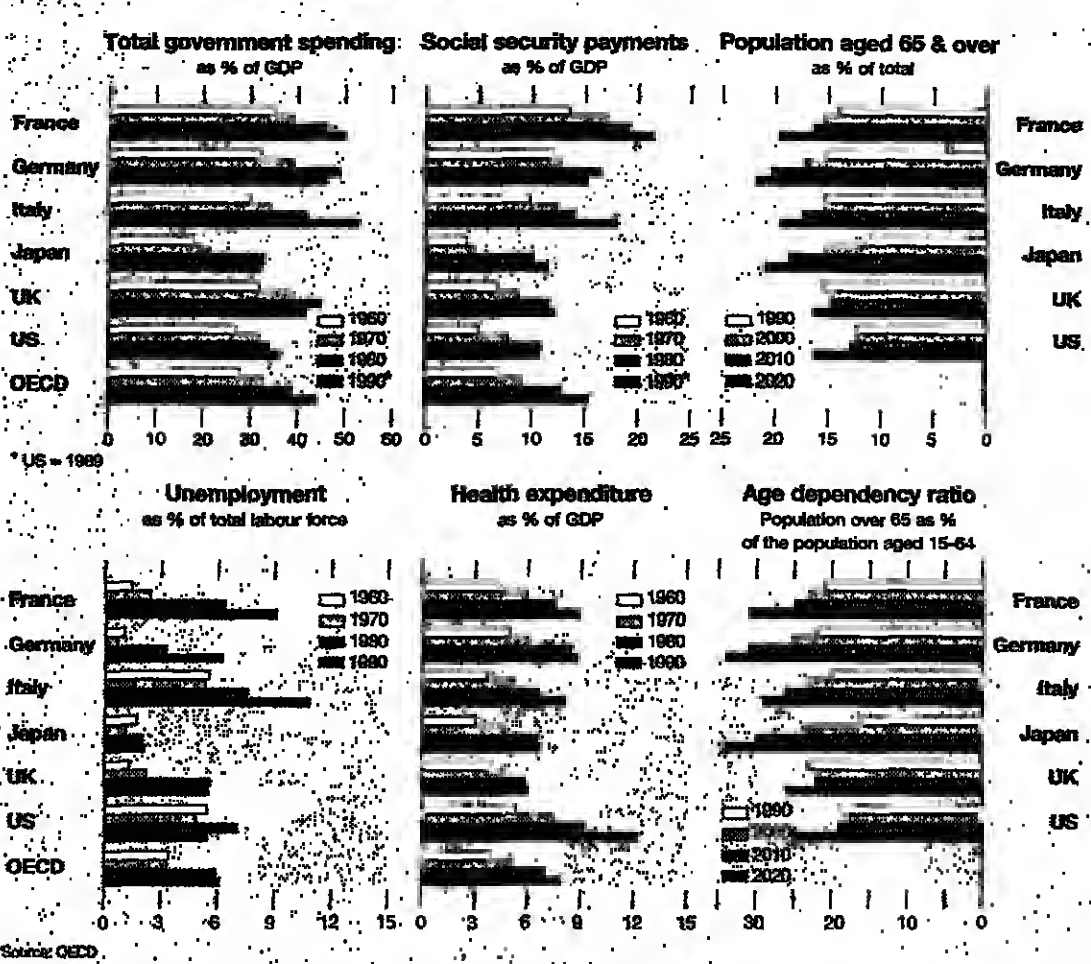
Most OECD countries have recognised the need to curb growth in these main areas of welfare spending during the 1980s, and have introduced policies to tackle the underlying causes. For example, governments have become much less willing to offer improvements in pensions. Moves are afoot in countries such as Germany and Italy to raise the pension age. Automatic indexation of pensions to earnings has been weakened in Germany and ended altogether in the UK for the basic state pension.

Healthcare systems have been reformed to make them more efficient and to break down the cost of pharmaceuticals. Although there are considerable differences between national health systems, healthcare reforms in countries

Governments are anxious to cut the cost of pensions, healthcare and benefit payments. John Willman explains their options

Welfare versus wealth of nations

Beyond the welfare state: the growing burden



such as the UK and the Netherlands are increasingly converging on models that use competition and price incentives to control costs.

Many countries have also begun to tighten up on unemployment benefits, with reductions in benefit levels and more rigorous conditions to qualify. Active labour market policies have been introduced to promote a return to employment.

Some countries have succeeded in stabilising their welfare costs by measures such as these. But what most concerns those responsible for public finances is the strength of underlying pressures on welfare spending that will push costs upwards in the future.

Only halfway through the 21st century will the number of over-65s peak, at about 190m

The most important of these is demography. Increases in life expectancy have already increased the number of elderly people collecting pensions. The number of over-65s in the 24 OECD member states rose from 61m in 1960 to more than 100m in 1990.

The growth is accelerating, with the number projected to rise to more than 115m in 2000, 131m in 2010 and 156m by 2020. Only halfway through the 21st century will the number of over-65s peak, at about 190m.

The strain that this will put on the welfare state can best be seen by relating it to expected trends in the number of people of working age. The standard measure for this is the age dependency ratio, the population over 65 as a percentage

of the population aged 15-64. For the OECD as a whole, the age dependency ratio is predicted to rise from about 19 per cent in 1990 to 28 per cent by 2020 and 37 per cent by 2040.

Some countries face much greater pressures from the ageing of their populations than others. Germany and Japan, for example, will both have age dependency ratios of 34 per cent by 2020 - one person over the age of 65 for every three people between 15 and 64. By 2040, almost half of Germany's population could be over 65, though the proportion will fall thereafter.

Age dependency ratios will climb more slowly in the UK and US, to about 25 per cent in 2020 - four people of working age to support every elderly person. In both countries, ratios will peak at about 33 per cent in 2040.

The most immediate impact of these demographic changes will be on pensions, where costs will in any case rise as pension schemes continue to mature. Overall, the OECD estimates that the pension burden could double over the next 50 years. Real economic growth rates of up to 1.5 per cent a year would be needed to pay for pensions alone - and that on the assumption that the pensions do not increase in real terms.

In practice, increasing pensions in line with prices might be difficult to sustain if earnings rose faster. The growing gap between pensioners and those still at work which would result could be politically unacceptable. However, raising pensions by more than prices would either require much higher growth rates or higher taxes for those in work to pay the bill.

more might be required for the very elderly, less might be needed for younger people as chronic diseases become less common.

Additional costs of new drugs and advances in medical technology could be at least as important as demography in pushing up healthcare bills.

However, there will be an increase in demand for geriatric care and social services for the elderly. This will be encouraged by social changes, such as the decline of the extended family in which older people were cared for by younger relatives.

Other changes in social structure are also pushing up the demands on

No country can long afford to burden business with higher welfare costs than its neighbours

the welfare state. Throughout the OECD, for example, the number of lone-parent families has been rising since the 1960s. In some countries, the increase has been relatively moderate - 20 per cent or less in countries such as France, Japan and Switzerland. At the other extreme, the increase has exceeded 50 per cent in the UK and Australia.

In the US the number has more than doubled. Lone-parent families now typically constitute 10 to 15 per cent of all families with children in OECD countries. In the US it is one in four families.

The reasons for the growth include the greater ease of separation and divorce. But inevitably lone-parent families rely on welfare provision to a far greater extent than two-parent families.

Added to concerns over demography and social change are fears over the increase in unemployment levels across the OECD. Over the last two decades, jobless levels have risen during recessions but not fallen back to the same extent in the following recovery period.

This ratchet effect has worried the Group of Seven leading industrial countries sufficiently for an employment summit to be hosted by President Clinton in the coming months. Continuing rises in the base level of unemployment would further undermine countries' ability to pay for their welfare states.

Responses to these cost pressures vary from country to country. Germany, the UK, France, Italy and the US are among countries which have already raised tax and social security contribution levels.

However, the scope for such increases is limited by voters' reluctance to pay higher taxes. Where the cost of welfare is jointly funded by employers - as in Germany - higher contributions are also increasingly resisted by business, which fears the consequences for international competitiveness of higher costs. In a global economy, no country can long afford to burden business with higher welfare costs than its neighbours.

An alternative response to cost pressures would be further increases in borrowing to fund the welfare state. But that would also have deleterious effects, according to the OECD. Average government debt in OECD countries has risen from 29 per cent of GDP in 1979 to 44 per cent in 1992.

Without either tax rises or cuts in welfare budgets, current welfare spending plans could increase debt ratios on average by 90 percentage points over the next 40 years, according to one OECD study. It says this is "a situation which most would think unsustainable".

This is why the OECD's bi-annual Economic Outlook repeatedly stresses the importance of controlling welfare spending in improving economic performance. The OECD's immediate priorities for reform include charges for the use of some welfare services and greater competition to increase the efficiency of those services.

But the OECD has also drawn attention to the need for action to anticipate the funding implications of the rise in the number of elderly people. Tackling these longer-term pressures will require more than tinkering with charges and efficiency drives in welfare services.

Significant cuts in benefit levels, for example, may be needed - including greater targeting of benefits to the most needy. User charges could become increasingly widespread, especially for the better-off. They could rise to cover a much larger part of the costs of welfare services. And the demands put on the welfare state might be eased by encouraging more private provision of pensions and healthcare.

Measures such as these would fundamentally change the nature of the welfare state, however. From providing support "from the cradle to the grave", it would become a safety net for those who could not afford to provide for themselves.

As countries become wealthier, moving the boundary between the state's responsibilities and those of the individual in this way may be a natural step. But it would be politically controversial.

Yet it is increasingly clear that there is no alternative to fundamental reforms if advanced economies are to protect their most vulnerable citizens without imposing unacceptable burdens on economic performance. The welfare state may have effectively bound societies together through the ups and downs of the economic cycle for the last 40 years. But a new glue will be needed over the next 50 years if advanced economies are to pass beyond the welfare state.

This is the first in a series of articles analysing the pressures on the welfare state across the world, and examining policy options for relieving the strain

Buying the BIS

Private investors in the Bank for International Settlements will be watching carefully the change of guard when Andrew Crockett, international director of the Bank of England, takes over as general manager.

Investors? Yes, strange to tell, some 16 per cent of the stock in the secretive central bankers' central bank can be bought and sold in a European stock exchange.

When the institution was created in 1930 to recycle German reparations after the first world war, the equity was divided up between member central banks.

But the US declined to take up its share allocation, and part of the French and Belgian tranches were also released, all to be traded publicly, though without voting rights.

Last Friday, in the "over-the-counter" section of the Basic stock exchange, one BIS share, from the most liquid, American quota, was trading at \$79,400 (\$4,335).

The share, which by virtue of the bank's vast gold reserves is one of the safest and cheapest gold-related securities around, can currently be bought at a 31 per cent discount to net asset value. When the precious metal is really hot, the shares have historically commanded a small premium.

Run out

Well done the Toronto Blue Jays. Last year, Canada's constitutional referendum coincided with the Blue Jays' victory parade, after the baseball players became the first non-US team to win the World Series. In an encore this weekend, they comfortably retained the title ahead of today's general election.

Sadly, Blue Jay-induced euphoria bodes ill for the Conservative party. Brian Mulroney's constitutional proposal was firmly rejected, and now it looks as if Mulroney's successor, Kim Campbell, is poised for a resounding defeat. She could always take up baseball.

Model job

Seeing the Confederation of British Industry and the Engineering Employers' Federation are expected to tie the knot over

OBSERVER



'I'm a grey leopard. I can't change my liver spots'

the next few weeks, who is likely to emerge as the combined entity's mouthpiece on economics?

Now that Andrew Sentance, the CBI's economics director, has handed in his notice in favour of a job at the London Business School, the choice could be a straight tussle between the affable Sudhir Jumanekar, Sentance's deputy, and Ian Thompson, the cerebral but somewhat retiring economic adviser at the federation.

Should the revamped body decide to look elsewhere, it might consider Ford's head of economics, Kate Barker, one of the brighter economists currently working in British industry.

Alternatively, there are at least two possible candidates from the CBI old boy network: Leslie Gunde of GKN and Graham Burgess of BAT are both alumni of the economics department.

The job could also suit Richard Freeman, the well-connected and heavyweight chief economist at ICI who must be considering pastures new after the demerger.

Any footloose Treasury economists, though, would presumably be questioning how far the views of Neil Johnson, the outgoing EEF director-general whose less-than-glowing assessment of the department has been amply aired, are reflected in his colleagues' thinking.

Handbag carriers

As Lady Thatcher's victims bite back, former minister Alan Clark duly pitches in with his own review of that book. But his contribution, in the Sunday Telegraph, is informed with a degree of bile that derives from another source.

Laying into this "global package... that is gonna be marketed", he senses an act of "literary and historic vandalism", before concluding that "the book is incomplete: and somewhat polluted by the attentions of hacks".

This particular Thatcher-worshipper's frustrations are not entirely what they might seem, for turning to his own

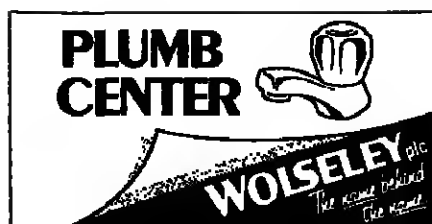
Diaries, one finds that Clark himself auditioned for the part of biographer. In an audience with the Lady, he is told first of all she wants him to do the book "because you are a believer".

He makes a play not for memoirs, scripted by a ghost, but for the Official Biography by himself. Quickly realising that he has quipped his pitch, he goes on to console himself with the fact that she is, wrongheaded in his view, anyway sold on the "autobiographical" approach to tell her story.

And what does New Republic editor John O'Sullivan, one of the chosen ghosts, think of Clark's verdict? "No valet is a hero, especially to another valet," he snapped, far from inanimately, out of New York yesterday.

Sic

What embarrassed Commonwealth officials have termed a "misunderstanding" has provided an intimate glimpse into the lives of the leaders attending the organisation's biennial conference in Cyprus. Journalists paging through the official list of delegates were astonished to find copious notes on the dietary preferences and medical ailments of the heads of government. The document was hastily replaced by an expurgated version. No prizes for guessing that John Major prefers his food "plain and simple".



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Attali quits after Air France cost cuts revised

By John Riddling in Paris

MR Bernard Attali resigned as Air France chairman last night after the French government said it was modifying a cost-cutting plan which has sparked a strike by the airline's employees.

The alternative recovery plan for the loss-making airline came as the government sought to prevent an escalation of the strike action.

Mr Bernard Bosson, transport minister, said the 4,000 job cuts in the plan were necessary but could be achieved with a minimal number of forced redundancies. Confirming that the present controversial plan was being scrapped, Mr Bosson said a new one had to be put forward, and he was giving himself three months to draw it up. "We cannot save Air France while clashing with all its employees," he said.

The surprise move came as the

strike by ground staff protesting against the recovery plan was due to be joined tomorrow by Air France pilots and cabin staff and by unions at Aéroports de Paris, the airport authority, and at Air Inter, the domestic airline controlled by Air France.

The dispute, now in its second week, represents a dilemma for the government of Mr Edouard Balladur, in its first serious industrial dispute since taking office in March and fears a spread of public-sector unrest.

The government is seeking to restructure inefficient state-owned industry to ease pressure on the budget deficit - targeted at FF317bn (£36.5bn) this year - and to enable the sale of state-owned groups it has slated for privatisation. But such measures threaten to fuel protests in the public sector and add to anxiety about the unemployment rate, which is 11.7 per cent.

A number of other public sector

protests are planned. In addition to the Air France strike, unions have called for a day of mass action on November 18 which is expected to hit France's railways, postal and telecommunications services.

France Telecom and the railways are not on the privatisation list, but a one-day strike earlier this month drew wide support from workers in these groups, reflecting fears about job cuts and opposition to the government's employment bill. The bill is aimed at increasing flexibility in French labour law.

The threat of broader public-sector actions prompted the government to step in quickly at Air France. In weekend talks, Mr Bosson offered concessions, including a proposal that pay cuts be limited to 1 per cent for the airline's lowest-paid workers and that reductions in overtime pay could also be revised.

Ulster peace initiative in jeopardy after attack

By Philip Stephens and Our Belfast Correspondent

THE Hume-Adams initiative to end the fighting in Northern Ireland appeared doomed last night as Mr John Major, the UK prime minister, led a fierce denunciation of the Irish Republican Army's bombing of a busy Belfast street.

As the death toll from Saturday's attack in the Protestant Shankill Road rose to 10, including one of the terrorists who planted the bomb, Mr Major ruled out early dialogue with the Republican Sinn Féin movement. Sir Patrick Mayhew, Northern Ireland secretary, and Mr Dick Spring, Ireland's foreign affairs minister, announced they had postponed a meeting of the Anglo-Irish inter-governmental conference on Wednesday. Mr Spring had been expected at that meeting to pass on to Sir Patrick details of the Hume-Adams plan.

But British ministers expect that the London and Dublin governments will press ahead with their own efforts to devise a new constitutional settlement to provide an umbrella for fresh talks between the legitimate political parties in the province.

In the wake of Saturday's massacre Ulster Unionists demanded an end to the so-called peace initiative framed by Mr John Hume, leader of the nationalist Social Democratic Labour party, and Mr Gerry Adams, Sinn Féin president.

Mr Hume called on the two governments to speed up their consideration of the proposals, which he said offered the best hope in 20 years of ending sectarian violence in the province.

However, Mr Major, who is expected to hold talks with Mr Albert Reynolds, Irish prime minister, during Friday's European Community summit in Brussels, said the bombing had seriously undermined hopes of any dialogue.

THE LEX COLUMN

Electric charge

The embarrassment of riches in the UK regional electricity companies must be giving rise to some discomfort in a number of boardrooms. Strong cashflows mean that many RECs will have net cash within the next couple of years. Yet financing such utilities with equity alone gives rise to an unacceptably high cost of capital. The RECs thus need to find ways of increasing gearing and returning the excess equity to shareholders.

Possibilities include share buy-backs and one-off mega-dividends, but the companies argue that they cannot consider change while the current regulatory review is under way. Offer, the electricity watchdog, however, is likely to view cost of capital as an important component of its review, and may not take kindly to RECs which agree price caps one week and radically alter their capital structures the next. There must be kudos for the REC which comes forward with capital reconstruction proposals that benefit both shareholders and customers.

Interestingly, gearing would also be increased if one REC bid mounted a cash bid for another. Some company managements have ambitions, and a merger would certainly produce cost savings. However, the premium one REC could afford to pay for another would be limited. A bid battle might well tempt in a more highly rated raider who could afford to pay more for a REC's cash generation and stable UK earnings. That leaves the question of the government's golden share, which does not expire until 1996. Given the history of previous golden shares, though, that might well prove a paper tiger.

Canada

The strength of both the Canadian dollar and its bond market suggests that, having long since given up hope of a Conservative victory, financial markets are discounting an outright Liberal win in today's election. If they are right there may be more to play for. At over 5 per cent, according to Goldman Sachs, Canadian government bonds carry the highest real yield of any in the group of seven leading industrial countries.

A large part of the premium reflects the fear of separatist movements in both Quebec and Western Canada. This would abate with a Liberal victory that excluded both the Bloc Québécois and the Reform party from a stake in a coalition government. Canadian bonds would then be particularly

Government bonds



attractive to international funds on the look-out for high returns, especially after the latest cuts in European interest rates.

An overall majority for the Liberals would leave their leader, Mr Jean Chrétien, free to concentrate on mundane issues like curbing the budget deficit. Even this, though, is no easy task. Bad news as it would be to Westland, cancellation of the C550B RH-101 helicopter order would be little more than a down payment. Concerted action on the budget, coupled with the reappointment of the anti-inflationary Mr John Crow as governor of the Bank of Canada in January, could shrink the 140 basis point spread between Canadian government bonds and US treasury issues. But Mr Chrétien would need a long track record of fiscal rectitude to re-establish the 50 basis point differential last seen in the summer of 1992.

Warrants

It is difficult to know whether the recent flurry of warrants on UK equities should be taken as a sign of encouragement or as a warning. Most have been call warrants, giving investors the right to buy the underlying stock. At first glance, that does not suggest a market on the brink of retreat. Yet many have been warrants on hitherto unpopular sectors such as food retailers and drugs companies, often accompanied by bullish research notes. On a cynical interpretation such issues are part of an increasingly desperate search for value in an over-stretched market.

While it can be unsettling to see the market led higher by derivatives, such instruments are increasingly a feature of day-to-day investment management. Unit trust managers have gained in

confidence since the Securities and Investments Board clarified the rules in 1991. The manner in which pension funds should account for derivatives has also been standardised. Importantly, pension fund trustees no longer regard futures and options as a black art to be avoided at all costs.

The current fashion for warrants is unlikely to form part of this process, though. Pension funds have been using them for some years. BTR, a core holding for many UK funds, started issuing them in 1988. On that basis the latest spate of warrant issues looks like a response to peculiar market conditions rather than part of a secular trend. The taste for highly geared investments will not outlive the bull market.

Lonrho

Mr Tiny Rowland may have the disadvantage of the black pieces in his battle with his co-chief executive Mr Dieter Bock, but he is clearly still playing to win. Until last week Mr Bock seemed to be developing unstoppable momentum. He is Lonrho's largest single shareholder and has assiduously courted such institutional investors as the company could muster. His drive to open up the company, sell the Observer, and realise value for the Western Platinum and Ashanti holdings has won applause.

Yet it never does to underestimate Mr Rowland, and he has now upstaged Mr Bock twice in three days. The compromise over non-executive directors will make it harder for Mr Bock's camp to vote through changes. And the jaw-slackening peace deal with the Fayeds means that Mr Rowland does not have to fight on two fronts simultaneously. He has other advantages, most notably a hard core of support among small shareholders, intimate knowledge of Lonrho's African businesses and an ability to come up with genuinely surprising deals. Worse for Mr Bock, recent developments suggest that Mr Rowland can still dictate Lonrho's strategy without even bothering to inform his business associates.

Attempts to take Lonrho out of Mr Rowland's hands have failed before, as Mr Alan Bond can ruefully confirm. While the odds favour an eventual victory for Mr Bock, it is not secure yet. Lonrho's share price will probably bounce now the cash flow to the lawyers has dried up. But if a protracted trench war is in the offing, the two men could still damage what is left of Lonrho's prospects.

German economy to grow 1.5% next year, say leading institutes

By Christopher Parkes in Frankfurt

THE GERMAN economy will rebound from recession next year, growing 1.5 per cent after shrinking by the same proportion in 1993, according to a majority report from the country's six leading economic institutes.

In their traditional autumn forecast, published today, they predict 1 per cent growth in the west and a 7 per cent rise in the east, based mainly on a recovery in trade and on assumptions that average pay will rise 2 per cent.

Dissenters at Berlin's DIW institute, however, expect a further fall of 0.5 per cent in the west and growth of only 5 per cent in the east.

The institutes, which last year

under-estimated the strength of the slump and forecast 1 per cent pan-German growth, said exports and imports would each grow 3.5 per cent.

On the deficit side, they warned of a sharp increase in unemployment and were sceptical of the government's plans to reduce public spending. Driven mainly by an increase of 340,000 in the jobless total in the west to 8.4 per cent, aggregate unemployment was likely to rise to 9.5 per cent, or 8.6m.

The report added that the federal budget deficit was likely to increase DM3bn to DM110bn. "The ratio of state spending to gross domestic product will probably rise to 51.5 per cent," it said, noting that this compared with around 45 per cent before unifica-

tion. Warning Bonn that investor confidence would be harmed if it did not act, the report said: "So far there is no convincing medium-term consolidation strategy."

The coalition government's fiscal policy was based on increased tax revenues and welfare contributions, it charged. There was no alternative to forcing spending cuts and reducing consumption-oriented hand-outs.

Mr Theo Waigel, finance minister, said at the weekend that the report confirmed the government view that the economy was recovering, although in a routine monthly study, published yesterday, the Ifo institute from Munich reported waning optimism in industry after a further decline in capacity utilisation in September.

China tax

Continued from Page 1

removal from the commercial banks of "policy-lending" responsibilities such as financing big capital works projects. This task would instead be undertaken by new "policy-lending" institutions.

He indicated that the government planned to "get tough" with loss-making state enterprises by continuing to give preference to profitable market-oriented institutions in the provision of credit. "Enterprises should run their businesses independently, responsible for profits and losses, expansion and development."

Foreign trade reform would focus on fulfilling requirements for accession to the General Agreement on Tariffs and Trade, said Mr Li, who is responsible for overseeing China's foreign trade.

He defended the Communist party's role, saying a weakening of its control risked chaos.

Bombs and bodyguards in Russian banking

Continued from Page 1

the Most (Bridge) banking and construction group openly admitted last week that it had a security force of 650 men.

In contrast, Mr Dmitry Tulin, the 37-year-old deputy governor of the central bank, who has just been given the thankless job of trying to improve supervision over Russia's 3,000 banks, has no bodyguard.

"We are all under a certain pressure coming from... underground banking activities and the bosses of the underground economy," Mr Tulin says. "But many Russians have become fatalistic."

This summer, Mr Sergei Panov, the official responsible for on-site inspections of banks, had his hand smashed and his *dacha* set on fire after he tried to investigate a Moscow commercial bank. One night in September, a bomb

went off at a central bank annex next door to the Interior Ministry, responsible for law and order.

It is still extremely easy to set up a bank in Russia. "Many of our well-to-do citizens have a choice between buying a new car and setting up a bank," says Mr Tulin, who describes as "ridiculous" the central bank's Rhs100m (\$30,000) minimum capital requirement for operating a bank. He foresees political problems in raising this limit, but hopes that closing some insolvent banks will dampen enthusiasm for setting up new ones.

Mr Tulin also wants to change the central bank's arrangements for refinancing commercial banks. In June, the management of one bank disappeared from Russia with \$4m borrowed from the central bank.

Nor does the central bank have guidelines against money-laundering - a problem Mr Tulin plans to start tackling by inviting leading international experts to a seminar in Moscow next month.

Mr Sergei Rayevsky, a former finance minister who is now deputy chairman of one of the more conservative institutions, Neftehimbank, claims that the "problems start when banks accept dirty clients". And when criminal clients ask for more "loans", bankers either pay up or suffer.

The western banks which have begun to set up subsidiaries in Russia are taking no chances. Security for the bank established jointly in St Petersburg by Banque Nationale de Paris and Dresdner Bank is the responsibility of Mr Yevgeny Lukyanov, a suave former KGB operative who once worked in London. He says his job ranges from protecting the bank's cash to guarding against attempts by criminals to "infiltrate" the bank.

FT WORLD WEATHER

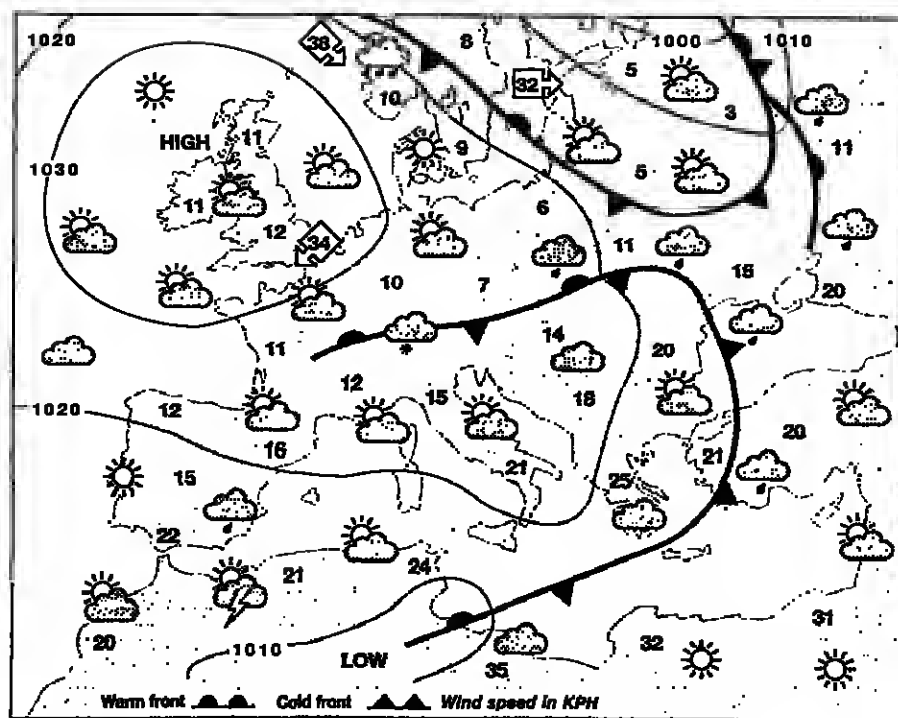
Europe today

High pressure will keep conditions calm over the British Isles, while a series of low pressure areas will cover the Continent. There will be north-westerly gales along the northern Norwegian coast. Snow showers will fall in northern coastal regions of Scandinavia but rain will occur farther south. Interior Scandinavia will remain generally dry with a few snow showers.

A weakening frontal zone over central and southern Europe will cause mainly cloudy conditions, although Italy and former Yugoslavia will have periods of sunshine. Greece, Romania and the south-western CIS region will have rain or thunder showers. Northern Germany and the Benelux countries will have some sunny spells but temperatures will remain unseasonably low.

Five-day forecast

High pressure will stay over the British Isles and conditions will remain settled. Low pressure over Scandinavia will track east, drawing more cold unstable air into the northern CIS region and Scandinavia. Sunny spells will be interspersed with a local snow shower in northern areas. Central Europe will remain mainly cloudy but dry, while the south-east will continue to have some sunshine.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteor Consult of the Netherlands

TODAY'S TEMPERATURES

	Maximum	Minimum
Abu Dhabi	30	24
Accra	30	24
Algiers	19	12
Amsterdam	12	8
Athens	25	18
B. Aires	18	12
Baham	32	26
Bangkok	32	26
Barcelona	18	12
Beijing	17	10

	Maximum	Minimum
Cardiff	10	7
Chicago	17	10
Cologne	11	8
O. Salem	27	22
Dakar	30	24
Dallas	22	15
Hong Kong	24	18
Honolulu	30	24
Istanbul	11	8
Jersey	11	8
Karachi	37	30
Kuwait	31	24
L. Angeles	24	18
Las Palmas	21	15
Lima	21	15
Lisbon	18	12
London	13	8
Luxembourg	9	5
Lyon	9	5
Madrid	22	16
Manila	32	26
Majorca	19	12

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Monday October 25 1993

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INSIDE

Unilever closer to Bertolli buy

Unilever, the Anglo-Dutch group, has reached an advanced stage in negotiations to buy Bertolli, the edible oils side of the Italian foodstuffs group Cibo-Bertolli-De Riva (Cib).
Fiori, an agri-industrial holding company with extensive interests in southern Italy, is pressing ahead with the sale of the well-known Bertolli brands to help fund its purchase of Cib, which was privatised two weeks ago. According to trades unions monitoring the negotiations, Unilever is likely to be asked to pay about £150bn (\$94m). Page 18

Gencor raises income

Gencor, South Africa's second-largest mining house, increased attributable income by 12 per cent, to R1.41bn (\$420m) from R1.26bn, in the year to August. Page 18

Rhône-Poulenc warns of drop

Rhône-Poulenc, the French chemicals and pharmaceuticals group due to be privatised within the next few weeks, yesterday forecast that net profits would show a decline of about 30 per cent in the first nine months of the year, compared with the FF1.11bn (\$189.7m) reported in the same period in 1992. Page 18

Swedish forestry merger

The Swedish government has announced plans to merge its interests in three state-run forestry groups - Assi and Domén, both 100 per cent state-owned, and NCB, in which the state holds 51 per cent - to create one of Europe's 10 largest pulp and paper companies. Page 18

Lloyd's broker comes to market

Nelson Hurst, an insurance broker which specialises in professional indemnity in the Far East and Latin America, aims to list its shares on the London Stock Exchange in the next few months. The group expects to raise about £30m (\$45.3m) in fresh capital through the flotation, which is expected to value it at about £50m. Page 18

Flotations set for record

More than £2bn (\$3bn) was raised through flotations in the first three-quarters of the year and the full year total looks set to exceed the £2.6bn record set in 1987, according to figures released today by KPMG Peat Marwick, the accountants. Page 18

B&C legal action possible

Ernst & Young, administrators to British & Commonwealth Holdings, which collapsed in 1990, confirmed yesterday that it was considering suing "various parties" connected with the collapse of the financial services group. Page 18

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BankAmerica to cut further 3,000 jobs

By Richard Waters in New York

A RENEWED round of cost-cutting at some of the US's largest commercial banks was presaged last week as BankAmerica, the country's second biggest, said it would shed between 3,000 and 3,750 jobs by the end of next year.

Other banks, while not pointing to specific plans to cut jobs, also signalled they were putting renewed efforts into reducing their expenses. The latest

squeeze comes in the wake of results last week which showed that some banks failing to maintain the momentum in reducing costs they established at the start of the 1990s.

BankAmerica has already shed 20,000 jobs in the past 18 months as part of efforts to rationalise its operations following its takeover of Security Pacific. The next round of job cuts, on the other hand, are part of an effort to bring the bank's costs more into line with competitors. The job

losses will be spread across the bank, which currently employs 98,000.

The California-based bank was reacting to a rise in its cost/income ratio, one of the key measures of a bank's operating performance, in the face of only a negligible growth in its income over the previous year. Third-quarter results released last week showed the ratio had crept up to 64.1 per cent, from 63.4 per cent the previous quarter, and 61 per cent a year before.

While US banks owe much of their turnaround in recent years to a favourable interest-rate environment, they have also succeeded in bringing down their operating costs sharply. Last week Mr Gerald Corrigan, who as chairman of the New York Fed until last summer had been the US's top bank regulator, pointed to the improvements in the banks' cost/income ratios as one of the main factors behind the recovery.

Citicorp, the US's largest bank,

also said it would concentrate more on cutting costs, though it said it could not forecast how many jobs may be lost.

Citicorp achieved one of the most drastic reductions in costs when it cut its cost/income ratio from over 70 per cent to around 55 per cent by last year. In the latest three months, though, the figure climbed back to 57 per cent. Mr Tom Jones, in charge of financial reporting at Citicorp, said the bank was making renewed efforts to bring costs down.

Branson buys out Japanese partner

By Paul Betts, Aerospace Correspondent

MR RICHARD BRANSON has reinforced his control of Virgin Atlantic Airways by buying out the airline's Japanese partner, Seibu Saison, for about £40m-£50m (US\$74m).

Seibu Saison, the Japanese hotel, retailing and leisure group, has held a 10 per cent stake in Virgin Atlantic since 1989.

It had an option to buy an additional 10 per cent stake to bring its holding in Virgin Atlantic to 20 per cent. The Japanese company was planning to exercise this option this month but Mr Branson preferred to buy them out to regain full 100 per cent control of the airline.

Virgin also confirmed yesterday that Mr Branson was investing an additional US\$150m in his airline operations to finance fleet expansion, development of new long distance routes to Hong Kong and San Francisco next year and the introduction of new electronic entertainment equipment on his airline services.

Mr Branson appears to have felt that the Japanese company was no longer the best partner to help him develop his airline business. Instead, he is considering negotiating new marketing agreements with other big international carriers in the US and Asia while consolidating his ownership of his airline.

Two years ago, Mr Branson considered selling up to 40 per cent of his airline to outside investors, but he has now shelved these plans.

Since the £560m sale of his Virgin music business to Thorn EMI in March, 1992, Mr Branson has refocused his business interests on computer game activities in retail operations and his airline.

The £150m he is investing in the airline from the proceeds of the Thorn EMI sale will go towards financing an offer for two Boeing 747-500 jumbo jets he is taking on leases from the Californian-based ILFC aircraft leasing group and for four Airbus A-340 long range airliners he is acquiring through lease-purchase agreements from the European Airbus consortium. These lease-purchase agreements give him the option of buying the equity in the A-340 aircraft when the lease expires.

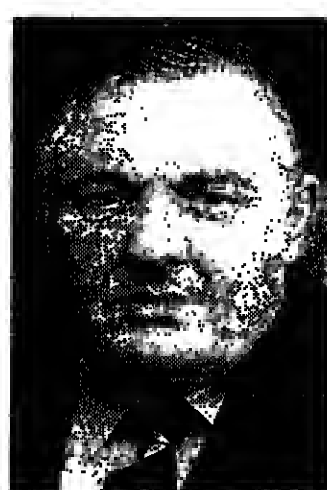
Virgin is also investing heavily to upgrade the electronic entertainments on board its aircraft including the introduction for the first time of electronic gambling.

Robert Peston and Roland Rudd analyse the ongoing boardroom battle at Lorrho Prizefighter goes into the ring with Bock

Rowland: facing down his foes



Sir Basil Smallpeice: quit Lorrho in 1973 after clashing with Rowland over his management style



Alan Bond: lost £60m then went bankrupt after failing to take over Lorrho in 1983



Mohamed al Fayed: settled legal battle over the Fayed's 1985 takeover of House of Fraser



Dieter Bock: joint chief executive is challenging Rowland for control of Lorrho

Ever since Mr Tiny Rowland patched up his long-standing and highly expensive quarrel with the Fayed Brothers, he has been swaggering around like a prizefighter who has just made a successful comeback.

The reason for his euphoria is that for the past six months, his influence at Lorrho, the international trading conglomerate he has dominated for more than thirty years, has been on the wane.

Mr Dieter Bock, the German financier who at the beginning of the year acquired 18.8 per cent of Lorrho's shares and became joint chief executive of the company with Mr Rowland, has appeared to have been calling the shots.

The company's strategic moves have apparently been dictated by Mr Bock - whether it was the disposal of businesses, such as the Observer newspaper, property in Brussels or last week's appointment of independent non-executives to the board for the first time in 20 years.

But Mr Rowland believes that his success in ending the legal dispute over the Fayed's 1985 purchase of the stores group House of Fraser - a truce he negotiated single-handedly between Wednesday and Friday of last week - shows that he is far from redundant.

"None of my colleagues knew [about the negotiations] and were surprised when it was signed," he said.

The two men rarely communicate with each other. Indeed by yesterday lunchtime, Mr Bock had still not telephoned to talk to him about it. "I am sure Bock should be delighted with the deal," Mr Rowland said. "I am sure he will want to ring and congratulate me."

Furthermore, Mr Rowland denies that most of the disposals are the doing of Mr Bock, who he says has failed to pull off a single deal.

Most of the disposals had,

according to Mr Rowland, been planned for some time. By way of example he said the sale of GewoC, a German holding company with a portfolio of apartments, had been initiated by Mr Roger Badger, a former Lorrho director, and not by Mr Bock. "All these deals were agreed well before Mr Bock arrived."

He is also critical of the one sale he does credit Mr Bock with achieving - the 50 per cent stake in the trading company which it owed jointly with Krupp-Hoesch. "This was a poor deal," he says.

Though he insists he is not in conflict with Mr Bock - and says he has "no desire" that the German financier should leave the company - he makes no secret of his discomfort with his management style.

Mr Rowland said: "He thinks Lorrho joined him and not vice versa. He will have to get used to working for Lorrho which is a public company."

Mr Bock's reply would almost certainly be that his aim over the past few months has been to

transform Lorrho into a far more conventional public company, rather than the vehicle of Mr Rowland's will.

He campaigned to secure the appointment of three non-executive directors - including two nominated by him, Mr Stephen Walls of Albert Fisher and Mr Peter Harper of Hanson - as part of a plan to make Lorrho more open and accountable to its shareholders.

'I started the company with six people and I have no intention of leaving it'

Whether by chance or design, the appointment of non-executives also changed the balance of power on the board to the point where he is convinced that he has more support than Mr Rowland. Mr Bock has also been hol-

stered by the support of the group's four big shareholders: Fidelity, with 8.9 per cent; PDM, the fund management arm of UBS, with 2 per cent; Postal with 1.5 per cent; and Genting, a Malaysian plantations and gaming group, with 3.9 per cent.

His plans to make the company more open and to increase the number of big institutional shareholders have been welcomed in the City of London.

Nonetheless, in his attempts to make Lorrho a more "normal" company, there was one deal he could never achieve. The dispute with the Fayed's was very much Mr Rowland's personal fight, because of his bitterness at having seen the stores group be longed to own being bought by Fayed's, whom he had regarded as close associates and friends.

Because the fight was so personal, only Mr Rowland could end it, even though Mr Bock has been desperate that the group should cease spending millions of pounds on it - as much as £50m has been spent by the Fayed's and

Mr John Major thinks that calls for full economic and monetary union in Europe "have all the quaintness of a rain dance and about the same potency"

Tell a continental government official about the prime ministerial jibe in a recent issue of the Economist and the reaction is one of pained surprise. Britain's European partners are again working towards Emu, even if the ambitious timetable of the Maastricht Treaty that envisages union by 1999 may slip.

Germany's ratification of Maastricht after its Constitutional Court found in favour of the treaty on October 12 has brought Emu back up the European agenda.

The special EC summit in Brussels on Friday this week will decide the location of the European Monetary Institute, which, as forerunner of the planned European central bank, will prepare for the third and final stage of Emu with its single European currency and monetary policy.

Although August's changes to the European Monetary System mean that the European exchange rate mechanism no longer exercises its former tight discipline over EC currencies, Europe's central bankers are not ignoring Emu.

Indeed, at a seminar on monetary policy, organised in Amsterdam last week by the Dutch central bank and the Centre for Economic Research at Tilburg University, both the Bundesbank and the Bank of England were making their cases for how monetary policy should operate once European economic monetary union is under way.

The planned European cen-

Emu still firmly on central bank agendas

tral bank should have a money supply target to steer its policy, just as the Bundesbank steers German policy by reference to M3, the broad measure of German money supply. In that way, the new institution would inherit the counter-inflationary credibility of the Bundesbank.

Worries that financial innovation might undermine such targets on a European level, as it has in the US or Britain, were probably overdone, Mr Issing suggested. Innovations tended to multiply in periods of high inflation and after reg-

Economics Notebook By Peter Norman

ulation and deregulation in the financial sector. If stage three of Emu were to begin with prices stable, the chances of minimising the dangers of innovation would be good.

By advocating a European monetary policy "made in Germany" in this way, Mr Issing put the Bundesbank on collision course with the Bank of England. It is not so long since Mr Eddie George, the Bank governor, threw his weight behind UK government efforts to scale down the EC's monetary ambitions by suggesting that other European member states should emulate the British practice of having an inflation target and use these to aim for economic convergence. In Amsterdam last week, Mr Andrew Crockett, the Bank's executive director for international monetary affairs, argued

stock as an intermediate target in monetary policy in Emu "would only be a first step".

He spoke warmly of the German experience of controlling money market liquidity through minimum reserves - the non interest-bearing deposits that commercial banks have to place with the Bundesbank. The adoption of such a policy on a European scale could reduce the competitiveness of international banks in the City, which at present face no such rule.

As Mr Issing does not look like a rain dancer, Mr Major should perhaps take note of what he says. There is another point about the debate on future monetary policy in Emu that should weigh with all 12 EC leaders when they meet in Brussels at the end of the week.

Such issues as the ideal EC monetary aggregate, the merits and demerits of inflation targeting and the best way of implementing a Europe-wide monetary policy threaten to tie up some of Europe's brightest economic policy makers at a time when more urgent questions, such as how best to tackle Europe's high and rising unemployment, are crying out for an answer.

This risk became clear when Mr Kuniharu Shigehara, head of economics at the Organisation for Economic Co-operation and Development, noted that 20 of the OECD's 24 member states are projected to have inflation rates below 3 per cent and asked whether the industrialised countries should not now err on the side of economic expansion rather than combating inflation. The absence of growth, Mr Shigehara warned, was fostering trade tensions and protectionism that threatened global prosperity.

Sadly, and perhaps significantly, his intervention was not followed up by the 70 or so central bankers and academics at the Amsterdam meeting.

BTR to spin off Graham business

By Paul Taylor

BTR, the UK-based industrial conglomerate, plans to spin off the Graham group of builders, merchants and other businesses through a stock market flotation in the first half of 1994.

The flotation is expected to value the Graham group at around £200m (\$295m). The timing is opportune since the share prices of companies like Tavis Perkins and Wolseley, which have large builders' merchant operations, have been buoyed in recently by the recovery in housebuilding.

Explaining the move yesterday Mr Alan Jackson, BTR's chief executive, said: "BTR's stated strategy is to concentrate its resources on the development of its core industrial manufacturing businesses. Today's announcement is a further step in the execution of this strategy."

Graham group includes Graham Builders Merchants, one of the largest distributors of building materials in the UK; George Boyd, a large ironmongery and tools distributor based in Scotland; and Goodman Croston, a specialist distributor of agricultural and fencing products.

Graham Builders Merchants has 134 branches across the UK and supplies a wide range of building materials. Last year the group, which employs about 3,000 people, had turnover of some £350m.

BTR said it had continued to make "substantial" profits during the recession. The proposed divestment underlines Mr Jackson's determination to push on with the strategy adopted after he became chief executive in 1991.



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COMPANIES AND FINANCE

Lloyd's broker coming to market with £60m tag

By Richard Lapper

NELSON HURST, an insurance broker which specialises in professional indemnity in the Far East and Latin America, aims to list its shares on the London Stock Exchange in the next few months.

The group expects to raise about £30m in fresh capital through the flotation, which is expected to value it at about £60m.

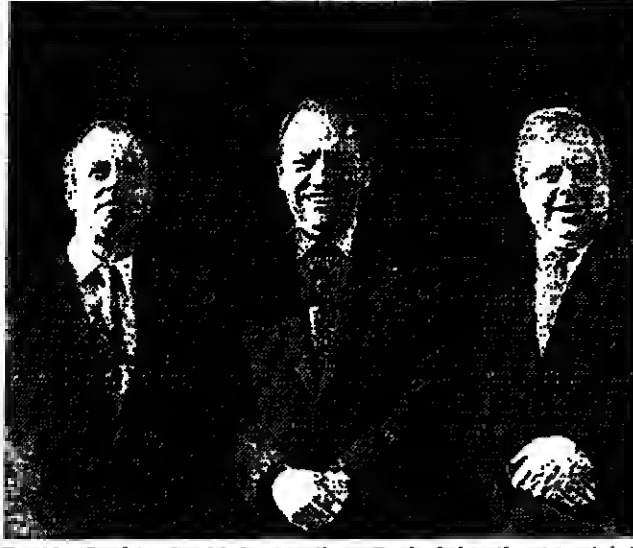
The listing follows a management buy-out from Citicorp - Nelson's former owners - two years ago, and is designed to give the group greater financial flexibility. It is one of a number announced by companies in the insurance sector in recent weeks.

One rival broker, the Fenchurch group, has announced plans to list its insurance broking interests with a flotation expected next month. Separate independent insurers will become the first insurance company to float since the second world war.

About a dozen new investment trusts are turning to the equity market to raise more than £1bn for syndicates of Lloyd's of London before the end of the year.

Nelson Hurst, the 18th largest broker in the UK, and the 26th largest in the world, derives about 30 per cent of its income from the Lloyd's market.

It specialises in buying insur-



David Woodward, chief executive, flanked by the two joint managing directors, John Percy-Davis (left) and John Alford

ance for professionals such as solicitors and accountants to cover them against legal actions for negligence. In addition the group has expertise in Latin America, where its clients include the operators of the Panama Canal.

Some £23m of the fresh capital raised through the flotation will be used to repay loans made by Citicorp. Advent, the US venture capital company which owns about 30 per cent of Nelson Hurst, is expected to reduce its stake.

But Mr David Woodward, chief executive, does not expect management and staff

to sell shares in significant amounts.

After flotation, management and staff are expected to own about 30 per cent of the group while Advent's stake will amount to about 15 per cent.

The group has steadily improved its performance in the past two years with revenues rising from £28.5m in 1990 to £28.3m in 1991 and £31.3m in 1992. Operating profits reached £3.8m in 1992, compared with £2.8m in 1991. Further improvement is on the cards this year with operating profits for the first seven months amounting to £3.6m.

Legal action considered over B&C collapse

By Scheherazade Daneshkhu

ERNST & YOUNG, administrators to British & Commonwealth Holdings, which collapsed in 1990, confirmed yesterday that it was considering suing "various parties" connected with the collapse of the financial services group.

The Independent on Sunday yesterday reported that Ernst & Young was planning to sue Barclays de Zoete Wedd, the securities arm of Barclays Bank, for alleged negligence in advising B&C on the takeover of Atlantic Computers in August 1988. B&C was subsequently forced to write off £550m against its investment in the company, which it had purchased for £407m.

Ernst & Young said yesterday that as administrators they were "investigating any rights of action they may have against various parties, but no decision has been made as yet as to whether to sue".

The administrators confirmed that they had held discussions with Stephenson Harwood, their solicitors, and with leading counsel about legal action, but that a decision was unlikely to be forthcoming in the "very near future".

However, Ernst & Young would have to issue a writ before the six-year expiry date on the bringing of civil actions under the statute of limitations runs out.

Last week B&C successfully sued another merchant bank, Samuel Montagu, which was ordered to pay damages of £172m to B&C creditors. The dispute arose over B&C's 1987 takeover of Mercantile House Holdings which relied on an agreement that Quadrex would then buy Mercantile's wholesale broking division.

However, after the bid, Quadrex did not have the money to make the purchase, which led to B&C making a damages claim for breach of contract.

BZW said yesterday that the story was "nothing more than speculation" and said that it knew nothing about it.

Flotations set to raise record amount

By Paul Taylor

MORE than £2bn was raised through flotations in the first three quarters of the year and the full year total looks set to exceed the £2.5bn record set in 1987, according to figures released today by KPMG Peat Marwick, the accountants.

Commenting on the figures, which exclude privatisations and other issues raising more than £1bn, Mr Neil Austin, head of new issues at KPMG, said: "the amount of funds being raised on the markets is very encouraging for an economy not fully clear of recession."

In the third quarter 35 new entrants came to market, despite the impact of the summer holidays, compared with 20 in the same period last year and 28 in the 1991 third quarter.

The third quarter numbers boosted the total for the first three quarters this year to 93 companies, back up to the levels seen in 1989 and 1990. Last year 52 companies came to market in the first nine months.

However, the Unlisted Securities Market, which the stock exchange is thinking of closing, only had one company join it in the third quarter, bringing the total for the year to date to just three.

The KPMG report suggests, therefore, that the number of companies joining the market as a whole will not recover to the levels enjoyed in the mid to late-1980s, when substantial numbers of companies were joining the USM.

Mr Austin says he remains concerned about the needs of smaller growing companies, which he does not believe are

being catered for by the Official List.

"The average capitalisation of companies coming to market remains low, with some companies joining the market with capitalisations as low as £10m," said Mr Austin.

"Past experience shows that smaller companies can have many problems with the stock market when the boom is over, including lack of marketability of their shares and difficulty raising capital at a sensible price."

As a result he argues that "there is still a pressing need for an alternative market for smaller companies, one better suited to their needs and capitalisation."

KPMG's research shows that smaller companies join the market with the expectation that their shares will be marketable and provide them with

funds for expansion, but are "very often disappointed with the actual outcome."

Mr Austin also sounds a note of caution about the number of companies joining the market at present, arguing that there appears to be "an element of opportunism."

He said a number of companies are floating for the traditional reasons, either private companies wishing to raise capital for expansion, or management buy-outs and institutionally-backed companies seeking an exit.

"There are however a number of opportunistic flotations seeking to capitalise on the current high prices being paid by the market," he added. "A number of such companies may find that they cannot fulfil their ambitions when the markets turn again, and such companies fall out of favour."

EDP puzzled over share price rise

By Alan Cane

SHARES in Electronic Data Processing, the Sheffield-based computer software and services group, rose 15 per cent last week from 56p to 64p, puzzling the group and its brokers, Henry Cooke Lumsden, who were at a loss to explain the sudden movement.

EDP has been a solid but unspectacular performer in recent years. Mr James Warburton, electronics analyst with

Albert E Sharp, said his company had been buying EDP stock aggressively on behalf of institutional clients. The sharp price rise was a consequence of a short market.

Mr Warburton said he believed the prospects for EDP were excellent. Its new product, UniVision, an advanced database management system using object-oriented technology, was set to do well. A contract with NCR, the computer company which is

now part of AT&T, was close to being signed, which would yield substantial annual licence fees.

In the first half of the year, EDP's pre-tax profits slipped to £2.34m from £2.41m on revenues of £7.35m (£7.47m).

The company has spent heavily in recent years on moving away from low margin hardware distribution towards software and services and has invested some £2.5m in the UniVision product.

London & St Lawrence merger

LONDON & St Lawrence Investment Company is making an agreed offer for its fellow investment trust, Practical Investment Company, creating a trust with assets of about £58m.

London is offering shares based on the relative formula asset values. It already holds 27.4 per cent and has irrevocable acceptances for a further 54.4 per cent.

Both trusts have similar investment policies and have been closely associated since 1957. In 1990 London voted to continue until at least the 1993 annual meeting and in accordance with its articles a motion is to be put to the next annual meeting to put Practical into voluntary liquidation.

London also reported that its net asset value per share at August 31 was 175.32p, against 124.82p a year earlier.

Net revenue for the 12 months to the end of August was £336,600 (£287,200). Earnings per share were 4.39p (4.24p).

An interim dividend of 3.64p has been declared, against last year's single final payment of 3.36p, with an unchanged special dividend of 0.48p.

CROSS BORDER M&A DEALS

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
American Brands (US)	Invergordon (UK)	Drinks	£225m	Control won at last
South Wales Electricity (UK)/Cable Tel (US)	Joint Venture	Cable	£75m	TV & telecoms venture
Tate & Lyle (UK)	Tully Sugar/South Johnstone Mills (Australia)	Food	£38m	Cash bid via Sundaberg
Insurer United Friendly (UK)	Unit of American Express (US)	Insurance	£13.8m	Amex selling Acuma arm
Rugby Group (UK)	Heeslen/Kogro/Van Bruchem (Netherlands)	Building products	£10.3m	Expanding Dutch interests
Northern Foods (UK)	Banketbakkerij Vanderheul (Netherlands)	Food	£4.3m	Northern takes the biscuit
Royal Insurance/Sun Alliance (UK)	Asset swap	Insurance	n/a	Swapping Canada/NZ units
Guinness (UK)/VMH (France)	Riche Monda China (JV)	Drinks	n/a	Reinforces relationship
Inchcape (UK)/Zuellig (Philippines)	Zuellig Inchcape (JV)	Marketing & distribution	n/a	Consumer products venture
Goldman Sachs (US)/ Mitsui Marine & Fire	JV	Financial services	n/a	Continues a derivatives trend

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55,000,000	£550,000	Ordinary Shares of 1p each	40,224,624	£402,246.24

CentreGold is a leading publisher and distributor of home computer and video games and related products. Copies of the Listing Particulars relating to CentreGold plc can be obtained during normal business hours up to and including 8th November, 1993 from:

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Holford
Birmingham B6 7AX

and during normal business hours on 25th and 26th October, 1993 for collection only from the Company Announcements Office, London Stock Exchange, London Stock Exchange Tower, Capel Court Entrance, Off Bartholomew Lane, London EC2.

The Intermediaries Offer referred to above closed at 10.00 a.m. on 22nd October, 1993.
22nd OCTOBER, 1993

Smith New Court Securities Limited is a member of the Securities and Futures Authority Limited and of the London Stock Exchange.



We are pleased to announce that with effect from 25 October 1993, IMI Capital Markets (UK) Ltd is changing its name to SIGECO (UK) Ltd.

At the same time it is relocating to its own premises at:

IMI House, 8 Laurence Pountney Hill, London EC4R 0BE
Tel: 071 283 6264 Fax: 071 283 2279 Telex: 941 9091 IMI CAP G

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FLOATING RATE NOTES 1994

FOR THE THREE MONTH PERIOD
21ST OCTOBER, 1993 TO 21ST JANUARY, 1994

In accordance with the provisions of the Notes, notice is hereby given that the rate of interest has been fixed at 5 1/4% per cent. per annum and that the interest payable on the relevant interest payment dates, 21st January, 1994 against Coupon No. 37 will be £740.41 from Notes of £50,000 nominal and £74.04 from Notes of £5,000 nominal.

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Notice is hereby given that the Rate of Interest has been fixed at 3.625% and that the interest payable on the relevant interest payment dates April 25, 1994, against Coupon No. 17 in respect of US\$10,000 nominal of the Notes will be US\$131.25 and in respect of US\$250,000 nominal of the Notes will be US\$328.13.

October 25, 1993, London
By: Citibank, N.A. (Issuer Services), Agent Bank CITIBANK

NICS, EUROPE & INCOME FUND
10A, Boulevard Royal - Luxembourg

NOTICE OF DIVIDEND PAYMENT
The General Meeting of Shareholders of NICS, EUROPE & INCOME FUND has decided to pay a dividend of USD 0.40 per share for the financial year ending 30th June, 1993 to each share held on the 24th October, 1993, the shares being quoted ex-dividend on 22nd October, 1993.

This payment will be made on and after the 28th October, 1993 against delivery of coupon No. 6 to Banque Paribas Luxembourg, 10A, Boulevard Royal, Luxembourg. Dividend cheques will be sent to registered shareholders. Dividends not claimed within 5 years of the prescribed date will lapse and revert to the Fund.

Luxembourg, 30th October, 1993
NICS, EUROPE & INCOME FUND

U.S. \$400,000,000
National Westminster Bank
Floating Rate Capital Notes 2005

In accordance with the provisions of the Notes, notice is hereby given that the rate of interest has been fixed at 3.4375% per annum. The interest payable on the relevant interest payment dates, April 25, 1994 against Coupon No. 18 will be U.S. \$173.78.

By: The Chase Manhattan Bank, N.A.,
London, Agent Bank
October 25, 1993

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By: Citibank, N.A. (Issuer Services), Agent Bank CITIBANK

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Rate Notes Due 2011

(Redeemable at the option of the Noteholders in 1995 and 2005)

In accordance with the provisions of the Notes, notice is hereby given that the rate of interest for the six months 25th October, 1993 to 25th April, 1994 has been fixed at 3.50%. The interest payable on the relevant interest payment date, 25th April 1994, will be US\$4,423.61 per US\$250,000 Note.

West Merchant Bank Limited
Agent Bank

Nationwide
\$100,000,000
Floating rate notes
due 1998

(Issued by Anglia Building Society)

Notice is hereby given that the notes will bear interest of 5.875% per annum from 21 October 1993 to 21 January 1994. Interest payable on 21 January 1994 will amount to £74.04 per £5,000 note and £7,404.23 per £50,000 note.

Nationwide Building Society
Agent: Morgan Guaranty Trust Company
JPMorgan

COMPANY
NOTICES

LEUMI INTERNATIONAL INVESTMENTS N.V.
US \$100,000,000 SUBORDINATED
FLOATING RATE NOTES DUE 2008
Notice is hereby given that the rate of interest has been fixed at 3.4375% per annum. The interest payable on the relevant interest payment dates, April 25, 1994 against Coupon No. 18 will be U.S. \$173.78.

By: Citibank, N.A. (Issuer Services), Agent Bank CITIBANK

ART GALLERIES
MARLBOROUGH FINE ART, 6
Albany Street, W1, 071-629 5161.
FRANCIS BACON, Street Portraits, 1945-1950, 1951-1955, 1956-1960, 1961-1965, 1966-1970, 1971-1975, 1976-1980, 1981-1985, 1986-1990, 1991-1995, 1996-1999, 2000-2005, 2006-2010, 2011-2015, 2016-2020, 2021-2025, 2026-2030, 2031-2035, 2036-2040, 2041-2045, 2046-2050, 2051-2055, 2056-2060, 2061-2065, 2066-2070, 2071-2075, 2076-2080, 2081-2085, 2086-2090, 2091-2095, 2096-2100, 2101-2105, 2106-2110, 2111-2115, 2116-2120, 2121-2125, 2126-2130, 2131-2135, 2136-2140, 2141-2145, 2146-2150, 2151-2155, 2156-2160, 2161-2165, 2166-2170, 2171-2175, 2176-2180, 2181-2185, 2186-2190, 2191-2195, 2196-2200, 2201-2205, 2206-2210, 2211-2215, 2216-2220, 2221-2225, 2226-2230, 2231-2235, 2236-2240, 2241-2245, 2246-2250, 2251-2255, 2256-2260, 2261-2265, 2266-2270, 2271-2275, 2276-2280, 2281-2285, 2286-2290, 2291-2295, 2296-2300, 2301-2305, 2306-2310, 2311-2315, 2316-2320, 2321-2325, 2326-2330, 2331-2335, 2336-2340, 2341-2345, 2346-2350, 2351-2355, 2356-2360, 2361-2365, 2366-2370, 2371-2375, 2376-2380, 2381-2385, 2386-2390, 2391-2395, 2396-2400, 2401-2405, 2406-2410, 2411-2415, 2416-2420, 2421-2425, 2426-2430, 2431-2435, 2436-2440, 2441-2445, 2446-2450, 2451-2455, 2456-2460, 2461-2465, 2466-2470, 2471-2475, 2476-2480, 2481-2485, 2486-2490, 2491-2495, 2496-2500, 2501-2505, 2506-2510, 2511-2515, 2516-2520, 2521-2525, 2526-2530, 2531-2535, 2536-2540, 2541-2545, 2546-2550, 2551-2555, 2556-2560, 2561-2565, 2566-2570, 2571-2575, 2576-2580, 2581-2585, 2586-2590, 2591-2595, 2596-2600, 2601-2605, 2606-2610, 2611-2615, 2616-2620, 2621-2625, 2626-2630, 2631-2635, 2636-2640, 2641-2645, 2646-2650, 2651-2655, 2656-2660, 2661-2665, 2666-2670, 2671-2675, 2676-2680, 2681-2685, 2686-2690, 2691-2695, 2696-2700, 2701-2705, 2706-2710, 2711-2715, 2716-2720, 2721-2725, 2726-2730, 2731-2735, 2736-2740, 2741-2745, 2746-2750, 2751-2755, 2756-2760, 2761-2765, 2766-2770, 2771-2775, 2776-2780, 2781-2785, 2786-2790, 2791-2795, 2796-2800, 2801-2805, 2806-2810, 2811-2815, 2816-2820, 2821-2825, 2826-2830, 2831-2835, 2836-2840, 2841-2845, 2846-2850, 2851-2855, 2856-2860, 2861-2865, 2866-2870, 2871-2875, 2876-2880, 2881-2885, 2886-2890, 2891-2895, 2896-2900, 2901-2905, 2906-2910, 2911-2915, 2916-2920, 2921-2925, 2926-2930, 2931-2935, 2936-2940, 2941-2945, 2946-2950, 2951-2955, 2956-2960, 2961-2965, 2966-2970, 2971-2975, 2976-2980, 2981-2985, 2986-2990, 2991-2995, 2996-3000, 3001-3005, 3006-3010, 3011-3015, 3016-3020, 3021-3025, 3026-3030, 3031-3035, 3036-3040, 3041-3045, 3046-3050, 3051-3055, 3056-3060, 3061-3065, 3066-3070, 3071-3075, 3076-3080, 3081-3085, 3086-3090, 3091-3095, 3096-3100, 3101-3105, 3106-3110, 3111-3115, 3116-3120, 3121-3125, 3126-3130, 3131-3135, 3136-3140, 3141-3145, 3146-3150, 3151-3155, 3156-3160, 3161-3165, 3166-3170, 3171-3175, 3176-3180, 3181-3185, 3186-3190, 3191-3195, 3196-3200, 3201-3205, 3206-3210, 3211-3215, 3216-3220, 3221-3225, 3226-3230, 3231-3235, 3236-3240, 3241-3245, 3246-3250, 3251-3255, 3256-3260, 3261-3265, 3266-3270, 3271-3275, 3276-3280, 3281-3285, 3286-3290, 3291-3295, 3296-3300, 3301-3305, 3306-3310, 3311-3315, 3316-3320, 3321-3325, 3326-3330, 3331-3335, 3336-3340, 3341-3345, 3346-3350, 3351-3355, 3356-3360, 3361-3365, 3366-3370, 3371-3375, 3376-3380, 3381-3385, 3386-3390, 3391-3395, 3396-3400, 3401-3405, 3406-3410, 3411-3415, 3416-3420, 3421-3425, 3426-3430, 3431-3435, 3436-3440, 3441-3445, 3446-3450, 3451-3455, 3456-3460, 3461-3465, 3466-3470, 3471-3475, 3476-3480, 3481-3485, 3486-3490, 3491-3495, 3496-3500, 3501-3505, 3506-3510, 3511-3515, 3516-3520, 3521-3525, 3526-3530, 3531-3535, 3536-3540, 3541-35

ARGENTINA: Spanish banks enter THE FUTURE.

Around 6 million customers.

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INTERNATIONAL COMPANIES AND FINANCE

Sale of investments helps Gencor to 12% advance

By Philip Gawth in Johannesburg

GENCOR, South Africa's second-largest mining house, increased attributable income by 12 per cent, to R1.41bn (\$420m) from R1.26bn, in the year to August. This is the last set of results the company will publish before unbundling its industrial investments next month.

The results were boosted by one-off benefits from tax adjustments and the sale of investments. Underlying operating income, excluding these effects, fell by 6.3 per cent to R1.09bn, or by 13.1 per cent to 79.5 cents per share. The dividend was maintained at 45 cents per share.

Mr Brian Gilbertson, chairman, said although the decline was disappointing, it reflected "a sound operating performance in the circumstances". Prices fell in most of the export markets in which the group operates, and the domestic operating environment was also difficult.

The unbundling, which takes effect on November 5, will see Gencor's net assets shrink by about a third to R1.2bn from R1.8bn. The new group will have no net debt, and cash and other liquid assets of R2.3bn. After distributing to shareholders,



Brian Gilbertson: sound performance given conditions

ers its stake in industrial groups Sappi, Engen and Malco, and investment arm Genbel, the rump Gencor will be a mining and minerals group with investments primarily in gold, platinum, coal, ferrochrome and stainless steel, and aluminium.

The priority for Gencor at the moment is trying to conclude the purchase of Billiton, the mining and metals arm of the Royal Dutch/Shell group. Talks have been under way for nearly six months. No figures have been announced, but the deal could be worth as much as \$2bn.

Mr Gilbertson said the deal

was "by no means done", but that the chances of success were better than 50:50. The two main issues to be resolved are the financing of the deal and the pre-emption rights that attach to many of the assets, especially the better ones.

Mr Gilbertson said all the "plum" assets were stripped from Billiton, Gencor wouldn't be a purchaser and Shell would find it difficult to make a sale. However, he added that "substantial progress" had been made in resolving the pre-emption issue.

"There will be a degree of pre-emption, but in my judgment we will be able to live with it," he said.

He said this meant "some parties will take up some of their rights". Finally should be achieved by the end of the year.

Mr Gilbertson said if the new unbundled Gencor structure had been in place in 1993, it would have achieved underlying operating earnings of 37.5 cents per share. He said he would be disappointed if these were not exceeded in this coming year.

The dividend will be decided in the light of 1994 cash earnings, which will be "significantly lower" than the 1993 equivalent of 35.6 cents per share.

Unilever closer to Bertolli acquisition

By Robert Graham in Rome

UNILEVER, the Anglo-Dutch group, has reached an advanced stage in negotiations to buy Bertolli, the edible oils side of the Italian foodstuffs group Cirio-Bertolli-De Rica (Cbd).

This follows the privatisation two weeks ago of Cbd, controlled 62 per cent by SME, the state-run agri-business group. The stake was bought for L307bn (\$190.5m) by Fisi, an agri-industrial holding company with extensive interests in southern Italy.

Fisi is pressing ahead with the sale of the well-known Bertolli brands to help fund its purchase of Cbd. According to traders monitoring the negotiations, Unilever is likely to be asked to pay about L150bn.

This would give the Anglo-Dutch multinational access to a further 9 per cent of the lucrative Italian olive oil market. Through Italian subsidiaries, Unilever already has some 15 per cent of the market.

Unilever's bid for the whole of Cbd was turned down two months ago as being too low. IRI, the state holding company which owns SME, also felt the offer did not contain sufficient guarantees about the future of Cbd's operations in southern Italy.

IRI, thus, was prepared to let Fisi win on a revised bid despite the holding having a mere L53bn in capital. Fisi is 60 per cent owned by co-operatives in the Basilicata region; 20 per cent by state-controlled financial institutions, including Banco di Napoli with 10 per cent, and the remainder split between private shareholders dominated by the Tanzi family, owners of the Parmalat dairy group.

Fisi is in the process of raising a further L200bn in capital. However it will also have to find another L190bn to buy Cbd's outstanding non-SME-held shares as it is obliged by law. This, coupled with some L60bn needed for investments, will bring this total of Fisi's Cbd purchase close to L600bn.

Sweden to merge forestry interests

By Christopher Brown-Humes in Stockholm

THE SWEDISH government has announced plans to merge its interests in three state-owned forestry groups to create one of Europe's 10 largest pulp and paper companies.

The move will assist the government's privatisation ambitions and lead to the new company being quoted on the Stockholm Stock Exchange next spring.

The companies being merged

are Assi and Domän, both 100 per cent state-owned, and NCB, a quoted company in which the state holds 51 per cent. Assi and Domän will combine at the year end before making an all-share bid worth SKr1.1bn (\$137m) for NCB next March.

Although the state will own 95 per cent of the combined group after the bid, it plans to reduce its holding to 85 per cent by selling a 10 per cent stake to Swedish institutions.

Mr Per Westerberg, Sweden's industry minister, does not

exclude further limited privatisation, although the aim is to keep the company majority state-owned.

The new group will have annual sales of SKr15bn, making it nearly as big as MoDo, Sweden's third-largest forestry group. It will have 13,000 employees, 5,000 of them in eight European countries outside Sweden.

Mr Westerberg said the aim was to create a financially strong company, capable of expanding further in Europe

and guaranteeing employment in Sweden.

The group's equity-to-assets ratio will be 53 per cent and profits after financial items are estimated at SKr700m in 1993.

It will be Sweden's largest forest owner, with 3.2m hectares of productive forest land, and its largest producer of sawn timber products. It will also be one of Europe's largest producers of corrugated board. Synergy gains will amount to more than SKr100m.

Bank seeks to avert bail-out with SKr3bn cash call plan

By Christopher Brown-Humes

FORENINGSBANKEN, the Swedish co-operative bank, has announced plans to raise nearly SKr3bn (\$375m) in new equity in a bid to remain privately-owned.

The move will be supported by a SKr2.5bn government guarantee to ensure the bank continues to meet international capital adequacy requirements. The guarantee can be used if the bank's credit losses prove larger than expected over the next three years.

However, if fully utilised, they would leave the state as the bank's majority owner.

Foreningsbanken says it will

issue shares to members and institutions and convert perpetual debenture loans to equity to raise its capital adequacy ratio above 9 per cent.

A consortium centred on the LRF, the Swedish farmers co-operative, will guarantee SKr2.5bn of the issue, while institutions will be offered shares worth SKr400m. The bank will also seek a listing on the Swedish stock exchange.

Valmet, the Finnish paper machine, and engineering group, saw losses after financial items shrink to FM44m (\$7.6m) in the first eight months from FM213m in the same 1992 period.

The group attributed the

improvement to streamlining and the weaker Finnish market. Sales rose 40 per cent to FM7.07bn from FM5.03bn and new orders were FM1bn higher at FM7.3bn.

Metals-Serla, the Finnish forestry group, has raised FM1.3bn from the sale of 15m shares in Repola, the country's biggest industrial group, to international investors. It retains a stake of 16.6m Repola shares, equal to 11.1 per cent of its capital.

The disposal will give Metals-Serla a FM290m capital gain, reduce its net gearing to 89 per cent, and increase its equity-to-assets ratio to nearly 40 per cent.

Profits at Imperial Oil surge to C\$84m

By Robert Gibbons in Montreal

LOWER crude prices and wider downstream margins enabled Imperial Oil, Canada's biggest integrated oil company, to post a 63 per cent jump in third-quarter profit and a 56 per cent gain in the first nine months.

The quarter showed earnings of C\$84m (US\$62.6m), or 43 cents a share, up from C\$46m, or 23 cents, a year earlier. Included are restructuring charges of C\$8m, against C\$63m. Revenues dipped 5 per cent to C\$2.24bn.

Nine-month profit was C\$255m, or C\$1.16 a share, up from C\$144m, or 74 cents, on revenues of C\$6.7bn, down 1 per cent.

Resource profits declined because lower oil prices and higher natural gas prices cut heavy oil output. Chemicals improved.

Analysts expect Imperial, which is 70 per cent owned by Exxon, to report lower fourth-quarter downstream profits and higher resource earnings, while chemicals will break even. Full 1992-1993 net profit is estimated at about C\$1.87 a share.

Suncor, another integrated group, reported a nine-month profit of C\$62m, or 96 cents a share, against a loss of C\$237m, or C\$4.37 cents, including a C\$238m restructuring charge.

Rhône-Poulenc warns of drop

By John Riddling in Paris

RHÔNE-POULENC, the French chemicals and pharmaceuticals group due to be privatised within the next few weeks, yesterday forecast that net profits would show a decline of about 30 per cent in the first nine months of the year, compared with the FF1.11bn (\$189.7m) reported in the same period in 1992.

The group said full-year net profits were likely to be down by about the same proportion on 1992 net profits of FF1.52bn.

The company blamed the decline on what it described as the "extremely poor economic climate affecting the chemicals and fibres market", which continued to depress volumes and

prices. However, it said prices for several products had now stabilised.

The agri-chemicals division also contributed to the decline in profits for the first nine months, as depressed demand arising from the European common agricultural policy and weakness in some geographical markets took their toll.

On the bright side, its health-care operations continued to show a strong increase over the same period in 1992, despite an expected slowdown after the first half.

Sales of specialty chemicals also continued to resist the poor economic environment.

Overall group sales declined by an estimated 40 per cent during the period, compared

with the FF1.95bn reported in the first three quarters of 1992.

Operating income declined by about 18 per cent to some FF4.6bn.

Rhône-Poulenc said it had decided to release estimates of its results in the first nine months because of the impending privatisation.

Currently, the company and the French government are in the process of forming a group of stable long-term shareholders, which will hold about 25 per cent of the shares following the sale of the government's 43 per cent stake.

On Friday, Fiat, the Italian industrial group said it was planning to form part of the core shareholder group.

Dutch insurer suffers as claims soar

By Ronald van de Krol in Amsterdam

RECESSION in Europe has bitten deep into the activities of NCM Holdings, the Dutch-controlled export credit insurer, according to interim figures, writes David Dodwell.

As claims soared by 66 per cent during the first nine months of this year, from FF189.9m to FF310.7m (\$164m), premium income rose by a modest 5 per cent, from FF415.8m to FF437.7m.

This boosted the company's "claims ratio" from 42 per cent of premium income in 1992 to 69 per cent in the first nine months of this year.

Nedlloyd examines drilling unit spin-off

By Ronald van de Krol in Amsterdam

NEDLLOYD, the Dutch transport group, is to examine spinning off its profitable offshore drilling subsidiary. The move marks a new phase in the loss-making company's divestment programme.

Among the possibilities are merging the drilling division with another company, putting it into a joint venture, or seeking a listing for it on an international stock exchange.

The division, called Neddrill, rents out rigs used to drill for oil and gas at sea and on land. Although Nedlloyd does not

publish specific turnover or profit figures for its drilling activities, its 1992 annual report said the drilling subsidiary posted a substantial increase in turnover and a clear improvement in operating results.

In recent years, Nedlloyd has divested a range of businesses, including its energy and air freight activities, as part of efforts to concentrate on two core businesses.

The pace and scale of these divestments was the main point of contention between Nedlloyd and Mr Torstein Hagen, the Norwegian investor.

Accor reports first-half results

Accor, the Paris-based international hospitality group, announced that its activities in the first half of 1993 resisted well to the unfavorable economic environment, except for mid-range and upscale (three- and four-star) hotels in Europe, and particularly to France where the sector suffers from overcapacity. Service vouchers and international institutional catering activities recorded sustained growth. In the first six months of the year, total revenues amounted to FF 14.4 billion (\$ 2.5 billion), down 3.6% from FF 15.0 billion in the comparable 1992 period. Excluding currency devaluations (particularly of the Italian lira, Spanish peseta and British pound), total revenues would have remained stable in the first half of the year.

(in millions of)	Half year		Full year	
	1993	1992	1993	1992
US\$	FF	FF	FF	FF
Total revenues	2,515	14,453	4,398	30,569
Income before non-recurring items and income taxes	88	505	420	1,267
Net income before non-recurring items	31	178	202	870
Consolidated net income, group share	19	109	137	802
Cash flow from operations	190	1,093	983	2,739

— Restated to reflect monetary correction of Brazilian data and recalculation of other operating revenues.
— Includes FF 220 million in non-recurring income, after taxes.

Activities not included in total revenues — i.e. the European car rental, the Motel 6 and Formula 1 budget hotel chains, and the Euresat France domestic institutional catering operations — recorded sales of FF 4.8 billion (\$ 0.8 billion) in the first half of 1993, up from FF 4.5 billion in the first half of 1992.

Income before non-recurring items and income taxes amounted to FF 505 million (\$ 88 million), up from FF 420 million in the 1992 first half. This figure includes FF 443 million (\$ 77 million) from capital gains on sales of non-strategic assets, which are now comprised in recurring income, as well as from transfers of activities into newly established partnerships. Consolidated net income, group share totalled FF 109 million (\$ 19 million), as compared to FF 137 million in the first half of 1992.

Cash flow from operations rose from FF 983 million in the first half of 1992 to FF 1,093 million (\$ 190 million) in the first six months of 1993. Cash flow exceeds capital expenditures for the period by FF 205 million.

As part of the Group's efforts aimed at reducing debt levels and strengthening its equity base, sales of assets continued in the first half of the year, amounting to FF 607 million (\$ 106 million), as compared to FF 1,349 million for 1992 as a whole. In addition, in August 1993, sales of Accor treasury shares held by Compagnie des Wagons-Lits raised the Group's equity base by nearly FF 800 million.

* At the June 30, 1993 exchange rate of US\$ 1 = FF 5.7515

For further information contact Investor Relations Department: (33) 1 45 98 86 00

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Notice of Early Redemption to the Holders of Texas Commerce Bancshares, Inc.

U.S. \$150,000,000

Floating Rate Senior Notes due 1997

NOTICE IS HEREBY GIVEN THAT, pursuant to the provisions of the Fiscal Agency Agreement dated as of 26th November, 1985 (the "Fiscal Agency Agreement"), between Texas Commerce Bancshares, Inc. (the "Company") and Bankers Trust Company, as Fiscal Agent, and in accordance with Clause 7(a) of the Terms and Conditions of the Notes, the Company will redeem all of the outstanding Notes at a redemption price of 100% of the principal amount on the next interest payment date being 30th November, 1993, after which date, interest on the Notes will cease to accrue. Subject to the receipt of required funds by the Fiscal Agent, repayment of principal will be made upon presentation of the Notes with all unattached coupons attached, at the offices of any one of the Paying Agents listed below:

Bankers Trust Company
1 Apsold Street
Brooklyn
London EC2A 2HE

Banque Internationale à Luxembourg
69 Route d'Esch
L-1470 Luxembourg

Banque Indulgente, Belgique S.A.
Place Sainte-Gudule 14
1000 Brussels
Belgium

Accrued interest due 30th November, 1993 will be paid in the normal manner against presentation of Coupon No. 32, on or after 30th November, 1993.

Bankers Trust Company, London
25th October, 1993

Agent Bank

Sedgwick Group plc

(Incorporated in England and Wales with limited liability)

£41,500,000

7% Convertible Bonds 2008

Convertible into ordinary shares in Sedgwick Group plc
Notice is hereby given to all holders of bearer Bonds that Sedgwick Group plc has sent to its shareholders and, for information only, holders of registered Bonds a circular dated 25 October, 1993 in relation to the calling of an Extraordinary General Meeting to be held on Thursday 18 November, 1993 for the purpose of considering resolutions to cancel the share premium account and increase the authorised share capital of Sedgwick Group plc.

Holders of bearer Bonds may obtain copies of the said circular from the offices of the paying agents at the following addresses:

The Chase Manhattan Bank N.A.
Woolgate House
Coleman Street
London EC2P 2HD
Sedgwick Group plc
25 October, 1993

The Chase Manhattan Bank
Luxembourg, S.A.
5 rue Papeye
L-2298 Luxembourg Grand

800 Terminal PLC
20 Cheesman Place
Bognor Regis
West Sussex BN20 9JL
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upon exchange against

Coupons on account of

payment of interest.

New total nominal

amount of: 31/10/93:

FRF 583 200 000

The Principal Paying Agent

SOGENAL

SOCIETE GENERALE

GROUP

15, Avenue Emile Reuter

Luxembourg

Notice of Redemption

Auto Funding PLC

Class A Floating Rate Notes

due 1996

NOTICE IS HEREBY GIVEN to

the holders of the Class A Floating

Rate Notes due 1996 (the "Class A

Notes") of Auto Funding PLC (the

"Issuer") pursuant to the Trust

Deed dated 20th November, 1991

(as amended) between the Issuer

and the Law Debenture Trust

Corporation p.l.c., as Trustee, and

the Agent Bank Agreement dated

29th November, 1991 between the

Issuer and Union Bank of Switzer-

land (the "Agent Bank") and

others that the Issuer has deter-

mined, in accordance with the

Redemption provisions set out in

the Terms and Conditions of the

Class A Notes, that Available

Redemption Funds (as defined in

the Terms and Conditions) in an

amount of £5,000,000 exist and

will be utilised on 29th October,

1993 (the "Redemption Date") to

redeem (at their principal amount)

an equivalent amount of Class A

Notes. The Class A Notes to be

redeemed have been selected in

accordance with the rules and pro-

cedures of Euroclear and CEDEL.

AUTO FUNDING PLC

By: Union Bank of Switzerland

As Agent Bank

22nd October, 1993

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Market Myths and Dull Forecasts for 1993
The 10 dollar will move higher, precious metals have been depressed, foreign currencies are not in a new bull trend. You do not need a PhD in futurology - the (un)predictable investment letter. Call for a free sample. Greenfield & Co. Ltd, 25 Roper Rd, 9-11 Grosvenor Gardens, London SW1W 0ED.

INTERNATIONAL CAPITAL MARKETS

INTERNATIONAL BONDS

Credit rating review clouds Turkey's prospects

THE REPUBLIC of Turkey returned rapidly to the international bond market last week despite the decision by Moody's, the international rating agency, to place the country's long-term credit rating under review for possible downgrading.

Last Monday, Turkey raised DM1bn through an offering of five-year Eurobonds, following on the heels of a \$100m 10-year Eurobond issue the previous week. This week, Turkey could launch a seven-year \$500m issue in the Samurai market, the domestic Japanese bond market for foreign borrowers.

Moody's announcement, on October 8, could not have come at a worse time for Turkey since it has been relying more on the international bond market to fund its growing public sector borrowing requirement (PSBR).

If Moody's does lower Turkey's credit rating from investment to sub-investment grade, this would close off a whole range of institutional investors who might otherwise take on Turkish risk.

Because of the shallow state of its domestic capital market, there is real worry that Turkey could find difficulty financing its balance of payments if its ability to tap international markets is impaired.

There already appears to be a growing reluctance among foreign banks to take on new Turkish risk. They are concerned at the failure to bring down the budget deficit and the current account deficit. The current account deficit is expected to exceed \$5bn by the end of 1993 compared with a deficit of just under \$1bn last year.

On both foreign and domestic bor-

rowing, the government has sought to improve the maturity of its debt in order to reduce its servicing costs, which account for more than 20 per cent of recurrent budget expenditures.

However, Turkey's foreign debt measured in absolute terms - as opposed to the effects of currency fluctuations - is rising. At the end of June, total public and private debt stood at \$58bn, up from \$54.7bn at the end of 1992.

Much of the increase relates to short-term borrowing as private Turkish banks seek to fund their Turkish lira loan book with cheaper offshore finance. Foreign government debt, however, has also expanded. Before the latest state of bond issues, Turkey's new foreign borrowings in 1993 totalled \$2.5bn, the largest issue being a \$100m Samurai issue.

The attractions of the Samurai market have seen a rise in the yen portion of Turkey's debt, to 18.6 per cent from 13.6 per cent in 1990. Given the yen's recent appreciation, this will also have added to Turkey's problems.

The success of Turkey's foray into the international bond market has always depended on improvements in the fiscal picture. After the latest wave of economic statistics, it remains to be seen how long Turkey can sustain this strategy.

For 1994, the government envisages a budget deficit of TL192,000bn (\$14.7bn). Taken with the projected transfers to loss-making state enterprises, the government forecasts a PSBR of 14 per cent of GNP compared with a 1993 target of around 9 per cent. However, PSBR is now officially expected to reach

16 per cent of GNP this year.

Syndicate managers involved in Turkey's recent Eurobond issues have played down the impact of Moody's announcement, noting that Standard & Poor's, the other leading rating agency, re-affirmed Turkey's triple-B rating on October 14.

They believe that any downgrading has already been discounted by the market, and that in any case, it is not a foregone conclusion that it will happen. In addition, current demand from investors for high-yielding paper has meant that the spread - the margin over the yield on government paper - on both issues has only widened by a small amount.

Antonia Sharpe and John Murray Brown

RISK AND REWARD

New instrument blends bond and futures fund



THE strong performance of futures funds this year, at a time when attractive returns are increasingly hard to come by, has aroused fresh interest in the sector. However, many investors are still afraid to take the plunge.

Although futures funds have had a good run this year - in the first eight months the average total return was 17.45 per cent, according to the TASS Management Index, which tracks their movements - their performance is highly volatile. In bad times, investors can see large portions of their investments wiped out rapidly.

One solution has been to structure guaranteed funds - the bulk of the fund is used to buy zero-coupon bonds, with a much smaller portion allocated for trading. One criticism of these funds is that they are neither flesh nor fowl: the investor may be protected from the potential losses associated with futures funds, but the small size of the investment in futures will also limit potential gains.

However, another option is available. On Friday, Citibank launched a hybrid instrument which is part futures fund, part bond. The structure is designed to attract investors, particularly bond investors, who would not feel comfortable with buying futures funds outright.

The Ecu50m offering, called Fleetwings, is structured as a 10-year Eurobond, and will be rated triple-A by Standard & Poor's, the ratings agency. For bond investors, this provides a high level of comfort. It also means that some institutions which would not be allowed to invest in futures funds can buy the triple-A rated bonds.

The concept is similar to a guaranteed fund: 80 per cent of the proceeds of the offering is used to buy bonds issued by the Nordic Investment Bank, while the remaining 20 per cent will be invested in a managed futures trading programme operated by Waldner Financial, a futures specialist. Waldner was chosen because of its long audited track record, and also because it focuses on the currency and interest-rate sectors, with which bond

investors are more comfortable.

The NIB bonds act as collateral and also provide a minimum level of interest for holders of the Fleetwings bonds. The minimum interest starts at 6 1/2 per cent in the first year, but by year five has dropped to 1 1/2 per cent before falling to 1 per cent in years nine and 10.

The coupon declines because the expectation is that the performance of the managed futures portion increases over time. On a historical basis, the return on this deal would be an annualised 13.1 per cent, according to Citibank, with gains concentrated in the latter years of the bonds' life.

Every quarter, half the trading gains are set aside and the other half reinvested, to preserve some of the gains made in the trading account. Nevertheless, the relatively long life of the issue gives a sufficient time frame to substantially enhance the return.

So what is the downside for investors? If only the minimum interest rate is paid, the investor will receive an average annual interest of around 3 per cent. In this case, investors would have done much better by buying plain vanilla bonds, since that is just half the current yield on 10-year Ecu bonds with triple-A ratings.

However, according to a Citibank simulation, there is more than an 80 per cent probability of receiving a return of more than 10 per cent. This probability is simulated by taking the historical data points, and then assuming the pattern may not be replicated, so scrambling them.

A handful of similar deals have already been launched. For example, in 1991 Waldner was involved in an Ecu100m deal, the proceeds of which were partly invested in Swiss Bank Corporation bonds and partly managed by Waldner. The decline in interest rates in the last few years may encourage more investors to depart from their traditional approach.

Fleetwings is aimed at institutional investors and high net worth individuals: the minimum investment is Ecu10,000. Similar deals in other currencies could be launched. According to Citibank, most of the buyers of the issue had not previously bought futures funds.

Tracy Corrigan

Borrower	Amount m.	Maturity	Coupon %	Price	Yield %	Launch spread bp	Book runner
US DOLLARS							
Henderson Capital	420	1996	6 1/8	100	-	-	Morgan Stanley/Wardley
Toho Zinc Co.	120	Oct.1997	6 1/8	100	-	-	Nikko Euro
SCIC (a.s.)	100	Apr.2004	3.50	100	-	-	Barclays de Zeele Weeld
Dresdner Bank	200	Nov.2008	8.00	98.875	8.013	+78 (5 1/4%-03)	Dresdner/Lehman Bros.
Banco Giannini, Gd. Coy.	100	Oct.1998	9.00	96.433	9.400	+483 (4 1/4%-08)	West Merchant Bank
France Compagnie	100	Oct.1998	7.25	99.975	7.250	+325 (4 1/4%-08)	Chase Investment Bank
Banco Comandante Italiano	100	Nov.2005	0	99.500	-	-	Lehman Brothers Int.
HRK International	100	Oct.2000	4.75	100	-	-	Morgan Stanley Int.
Banco do Nordeste do Brasil	75	Nov.1998	9.00	100	8.000	+490 (4 1/4%-08)	CS First Boston
NEO do Brasil	60	Oct.1998	9.25	100	9.250	+457 (4 1/4%-08)	Bank of America
National Bank of Hungary	50	Jan.1998	8.00	102.57	7.199	+240 (4 1/4%-08)	Chase Investment Bank
General Electric Corp.	50	Nov.1998	4.25	98.888	4.301	+15 (4 1/4%-08)	CS First Boston
General Electric Corp.	250	Nov.1998	4.25	98.888	4.301	+15 (4 1/4%-08)	Lehman Brothers Asia
Suez Argentina	100	Nov.1998	8.50	98.784	8.583	+450 (4 1/4%-08)	Citibank International
CMIO Finance & Securities	50	Nov.2003	3.50	100	-	-	Nomura International
HSBC Holdings	250	Nov.2008	8	100	8.890	+400 (5 1/4%-03)	Morgan Stanley Int.
Industriale Pulp & Paper Corp.	175	Nov.2000	8.875	99.821	8.890	+400 (5 1/4%-03)	Morgan Stanley Int.
San Paolo (Nassau Branch)	150	Nov.2005	0	99.500	-	-	Kidder Peabody Int.
Banco de Credito Argentino	136	Oct.1998	8.50	98.888	8.530	+390 (4 1/4%-08)	Merrill Lynch Int.
Banco del Atlantico	100	Nov.1998	7.875	98.653	7.960	+330 (4 1/4%-08)	J.P. Morgan Securities
Svenska Handelsbanken	100	Nov.1995	0	100.025	-	-	Svenska International
D-MARKS							
Republic of Turkey	1bn	Oct.1998	7.25	101.55	6.873	-	DO Bank
Saks No. 3	200	Nov.2003	6.00	101.80	5.786	-	Merrill Lynch Bank
World Bank	3bn	Nov.2003	5.875	99.808	5.901	+8 (6 1/4%-03)	Deutsche/Salomon Bros.
Deutsche Hypothekbank	500	Nov.2003	6.125	99.575	6.183	+33 (6 1/4%-03)	Dresdner Bank
Credit Suisse, London Br.	600	Nov.2003	6.25	102.40	5.825	-	CSFB-Effektenbank
STERLING							
Pouppot Talbot Motor Co.	50	Dec.1997	7.825	102.575	6.878	+80 (6 1/4%-07)	NatWest Capital Markets
Société Générale	100	undated	7.875	99.883	7.885	+100 (6 1/4%-03)	Hoare Govett
YEN							
Telegraf	200	Oct.1998	7.20	100	-	-	Nomura International
CCC	120	Nov.1998	3.75	101.80	-	-	Nomura International
Yoshida Kogyo KK	100	Nov.1998	3.90	101.625	-	-	BSI International
Credit Commercial de Fr.	100	Feb.1998	3.55	101.80	-	-	Fuji Int. Finance
Lavaro Bank Overseas	250	Feb.1998	3.55	101.63	-	-	Merrill Lynch Int.
FRENCH FRANCS							
Credit Local de France	7bn	Nov.2001	6.00	99.94	6.010	+21 (5 1/4%-01)	Clydebank/J.P. Morgan
Caisse Autonome de Refin.	500	Nov.2003	0	100	-	-	Paribas Capital Markets
Goldman Sachs O'ases Finance	1.3bn	Nov.1998	6.00	99.588	6.110	+85 (5 1/4%-08)	BNP
Société Générale Accept.	1bn	Feb.2004	0	99	-	-	Société Générale
Credit Local de France	500	Nov.1998	0	99.75	-	-	Merrill Lynch (France)
CANADIAN DOLLARS							
Kingdom of Sweden	250	Dec.2008	7.00	97.825	7.242	+43 (7 1/4%-03)	Hambros Bank

IKB: Financial Year 1992/93

IKB continues its Successful Course



Presenting its positive results for 1992/93, IKB would like to thank its shareholders, clients and business partners for their cooperation in the past financial year.

Despite the recession, demand for IKB's services related to long-term lending remained strong. We participated in the financing of innovative and cost-efficient investments in western Germany and the new federal states in eastern Germany. Beyond our traditional focus on industry we were able to open up new fields of business activity and we assisted clients in consolidating their positions by making available long-term financing at favourable terms.

Since our risks have not remained unaffected by the overall slowdown, we have built up additional provisions of more than DM 100 million.

From the Bank's Balance Sheet	Parent Bank	Consolidated
	March 31, 1993 in DM million	March 31, 1993 in DM million
Balance sheet total	36,768	37,265
Claims on customers	28,903	29,149
of which long-term	27,233	27,245
Bonds issued	8,011	9,025
Long-term liabilities to banks	14,997	14,895
Long-term liabilities to other creditors	6,218	5,733
Capital and reserves	1,468	1,468
Equity capital	2,277	2,277
Partial operating income	307	330
Net income	88	93

* For your copy of the IKB Annual Report, please write or call:
IKB Deutsche Industriebank AG, VM/M, P.O. Box 10 11 18
D-40002 Düsseldorf, Telephone: (211) 8221-985, Fax: (211) 8221-766

Of the total 1992/93 net income DM 16 million will be used to further strengthen our reserves. The dividend remained unchanged at DM 10 per share. Since the shares issued in our January 1992 capital increase are, for the first time, eligible for a full dividend payout, the annual shareholders' meeting on October 22 approved an increase in the distributable profit of DM 11 million to DM 72 million.

Details about IKB's activities and results are contained in our 1992/93 Annual Report - available in German and English - which we will be happy to send to you upon request.* It also includes a special section on the prospects for the German economy entitled "A Return to Growth".

Based on the first half results our 1993/94 financial year also looks very promising. Demand for our wide range of financing services has been unexpectedly high. This is reflected in our interim figures.

- Increase as of September 30, 1993 compared to March 31, 1993:
- Balance sheet total + 3.8 %
 - Claims on customers + 3.5 %
- Increase compared to 6/12 previous year
- Net interest and commission income + 5.3 %
 - Operating result + 5.7 %

Through our cooperation with BHF-BANK, Frankfurt, and Crédit National, Paris - IKB holds shares in both banks' capital and vice versa - we and our partners have further strengthened our strategic positions. We feel that IKB is well prepared for the challenges of the difficult years ahead.

Dr. Alexander v. Tippelskirch
Speaker of the Board of Managing Directors
of IKB Deutsche Industriebank AG

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INTERNATIONAL CAPITAL MARKETS

US MONEY AND CREDIT

Decline exposes frailty of earlier bull run

IF IT takes so little to knock the wind out of the bond market's latest bull run, then how will the market react to some real evidence that the US economy is picking up momentum?

That was the question left hanging in the air at the end of last week, as bond prices continued their week-long slide, and the yield on the 30-year long bond climbed back to nearly 6 per cent.

There was precious little new information in the market to justify a 30 basis point rise in the yield on the long bond. The yield ended on Friday at 5.98 per cent, from 5.78 per cent (a record low) at the end of the previous week.

The pain was felt across the

yield curve: 10-year bond yields climbed 23 basis points, to 5.39 per cent, while the yield on the two-year note rose by some 13 basis points, to 3.9 per cent. Bullish data on inflation the week before had fuelled the latest run-up in bond prices, but it took little to prick the market's bubble of confidence.

On Monday, J.P. Morgan said it was cutting its prime lending rate by half a percentage point, to 5.5 per cent. The move hardly seemed to pre-empt an immediate round of rate cuts by banks hungry to attract new loans. Morgan itself makes relatively few loans tied to prime, and other banks failed to respond to its lead. Still, the move was enough to

raise the prospect of higher loan growth, one result of which would be that banks would slow their purchases of Treasury bonds.

On Thursday and Friday, the bears had something firmer to bite on. The Philadelphia Fed's latest manufacturing index - not usually one of the bond market's most awaited pieces of data, to be sure - showed a sharp rise. A quarter of manufacturers questioned in the Fed survey said the general level of business activity had increased over the previous month, while only 9.9 per cent said it had fallen. This made a "diffusion index" of 15.1, a sharp jump from 8.7 the previous month. The fall in bond prices on the

data suggests the market expects the pick-up to be echoed in the more significant NAPM index, due a week today. The Philadelphia Fed survey, though, also indicated little sign of inflationary pressure picking up. The diffusion index of prices paid by manufacturers was close to zero, while the index for prices received fell 11.5 (in other words, more people reported a fall in prices they could charge than a rise).

Mr Alan Greenspan, chairman of the Fed, ended a poor week for the bond market by announcing that the economic "headwinds" which had checked growth had lessened. The implication: any chance of an easing of short-term inter-

est rates, already a long shot, had become even more remote. The next fortnight will give the markets some more significant numbers against which to judge these straws in the wind. On Thursday, third-quarter GDP figures are widely expected to show an acceleration from the first and second quarters of the year (hardly surprising, given the weakness of those periods). Analysts forecast the figure at anywhere between 2.5 per cent and over 3 per cent, at an annualised rate, compared with the 1.9 per cent of the previous quarter and 0.8 per cent in the first three months of the year. Even that figure may understate the true increase in economic activity in many parts of the country: the summer's flooding in the Mid-West could have held back the growth rate by 0.5 per cent, according to one estimate.

After last week's falls, the bond market seems to have braced itself for an acceleration in the growth numbers. The 30-year bond yield has held below 6 per cent pretty much consistently since the beginning of September, with the occasional slide towards the 5.5 per cent level at which many economists think it will trade in the medium term. It would take something significantly out of line with market expectations to push the yield out of this trading range and back above 6 per cent for a prolonged period.

Richard Waters

UK GILTS

Traders expect quiet spell

WITH THE \$3.5bn gilt auction this Wednesday likely to be the last of the year, the UK government bond market is looking ahead to a quieter period after the recent run of price rises.

Last week, gilt yields along the yield curve showed healthy gains on the back of generally favourable economic data, the cut in interest rates by the Bundesbank, and news that the Bank of England would not hold a gilt auction next month because of a possible clash with the November 30 Budget.

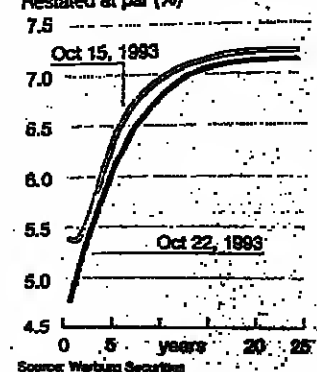
With the Bank well ahead in its gilt-issuing programme for the financial year, many gilt specialists reckon there will be no gilt auction in December, leaving open the possibility of one auction a month in the final quarter of the financial year ending next March.

Assuming the Bank sells all the 6 per cent Treasury bonds maturing in 1999 up for takers at Wednesday's auction, it appears the government will need to find buyers for only about £10bn worth of bonds to meet its funding requirement for the full financial year. These calculations are on the basis that the Treasury is correct in its forecast of a public sector borrowing requirement of £50bn for 1993-1994.

The strength of demand for gilts was illustrated by the ease with which the Bank sold bonds from a stock of £400m worth of index-linked securities released on Thursday. By the next day, roughly half of the bonds - £150m, of 3 per

UK gilts yield

Restated at par (%)



Source: Working Securities

cent stock due 2003 and £250m of 2½ per cent stock due 2020 - had found purchasers.

During the week, yields for most classes of gilts fell along the length of the bond curve by about 10 basis points. On Friday night, yields of 10-year gilts were quoted on a par basis at just over 6.5 per cent. Over the week, the yield difference for 10-year gilts compared with the equivalent German bonds narrowed from 103 basis points to 97 basis points.

Short-dated gilts were boosted by the Bundesbank's decision to cut by half a percentage point its Lombard and discount rates, to 6.75 per cent and 5.75 per cent respectively. The decision showed every sign of the Bundesbank bowing to pressure from other countries for an easing in monetary policy to speed up European growth, and was followed by a

wave of rate cuts elsewhere across the Continent.

In Britain, there was little sign that Mr Kenneth Clarke, the chancellor, was inclined to follow suit in the near future. Even so, many gilt specialists believe the German move will make it easier for him to cut base rates from 6 per cent on or around Budget day, to offset an expected fiscal tightening to bring down the PSBR in the next few years.

While the yield decline for short-dated gilts might have been expected to lead to a fall in prices at the longer end of the gilt curve - on the basis that falling official rates might trigger inflationary pressures - longer maturing gilts also performed generally well. This was largely because of the market's continuing perception that price pressures will stay subdued for some time, a sentiment reinforced by Friday's data on UK output which indicated that (excluding oil and gas) gross domestic product climbed by just 0.4 per cent in the third quarter, after three-monthly increases of 0.5 per cent and 0.6 per cent in the second and first quarters respectively.

The figures generally fitted in with the thinking that the pace of the recovery is slackening, which is good news for gilts, said Mr Simon Briscoe, a UK economist at S.G. Warburg Securities.

Peter Marsh

CANADIAN BONDS

Prices overcome election uncertainty

HOLDERS of Canadian bonds have shown remarkable equanimity ahead of today's general election.

Despite the prospect of a change in government and an unusually fractious parliament, bond prices have regained almost all the ground they lost at the start of the election campaign in September.

The spread between 10-year US and Canadian government bonds has narrowed from 1.72 percentage points to 1.38 points. The benchmark Canada issue was yielding 6.71 per cent at the end of last week. Short-term interest rates have fallen even faster.

The Bank of Canada has intervened in foreign exchange markets, not to support a sliding currency, but to brake its climb. The Canadian dollar has soared by almost two US cents in the past week, closing last Friday at about 76.65 cents.

The recent rally in financial markets mirrors rising confidence that the Liberal Party, presently in opposition, will emerge from today's poll as the majority government.

Foreign investors' first choice would have been a third term in office for the Progressive Conservatives. However, the Tories have had a disastrous campaign. They may end up behind not only the Liberals, but also the two fledgling regional parties, the Bloc Que-

becois and the right-of-centre Reform Party.

The prospect of a Liberal majority has dissipated fears of an unstable, hung parliament in which the separatist BQ and Reform would call the shots. Furthermore, the Liberals are perceived as more sympathetic to business than they were during their last spell in office in the 1970s and early 1980s.

While Liberals still argue among themselves on the pros

and cons of government intervention, some of the key economic portfolios in a new Liberal government are likely to go to two MPs, Mr Paul Martin and Mr Roy MacLaren, who each have substantial experience in, and sympathy for, the private sector.

Their room for manoeuvre will be limited by the huge build-up in federal and provincial government debt over the past decade, much of it held outside the country. Canadian politicians of all stripes have become more sensitive in the past year or two to the views of foreign bond holders and credit rating agencies.

The odds have narrowed in recent weeks that a Liberal government will offer Mr John Crow, the Bank of Canada's inflation-fighting governor, a second seven-year term. Although the Liberal leader, Mr Jean Chretien, has said that he will seek to renegotiate the North American free trade agreement, there is a widespread perception that a face-saving formula will be found to implement it.

Money managers tick off sev-

eral reasons why the bond-market rally is likely to continue for at least another month or two after the election. Canada's economy is still in the doldrums and the annual inflation rate remains below 2 per cent. Despite the recent narrowing of US-Canada spreads, inflation-adjusted interest rates in Canada are high.

"Canada is attractive at spreads anywhere above 100 basis points, and very attractive above 150," says Mr Will Sutherland, vice-president for fixed income at Altamira Management, a Toronto-based mutual fund group. Like many other bond-mar-

ket players, Mr Sutherland says the attraction of Canadian bonds is not so much a high yield as the prospect of a further advance in the Canadian dollar. "The opportunity for currency appreciation is better now than it was a year ago," he says.

Such optimism is harder to find, however, among foreign exchange traders. Mr John Nicholson, vice-president at Bank of Nova Scotia, says the dollar's strength "will probably continue over the near-term if there's a [Liberal] majority. But over the long term, there are a lot of problems."

These range from weak commodity prices to uncertainty about next year's provincial elections in Quebec, which will be more important than today's poll in determining whether Canada remains in one piece. Towering federal and provincial budget deficits, which could lead to the downgrading of some provinces' credit ratings, continue to cast a shadow over currency and bond markets.

There is also the risk, of course, that the opinion polls may be wide of the mark. One Canadian securities dealer in London says, with some understatement, that "the market could have a bit of a hiccup this week if the Liberals are short of a majority".

Bernard Simon

HIGHLIGHTS

■ "Go ahead" for major growth projects

— Alusaf R7.2 billion — Columbus R3.5 billion

■ Thrust to increase international interests

■ Decision to unbundle Gencor

■ Sound performance in difficult circumstances

— Attributable income up 12%

— Earnings per share up 4%

— Dividend maintained

GENCOR

Profit announcement for the year ended 31 August 1993

12 months to 31 August	1993	1992	% change
	(Audited)		
Attributable income - R million	1 411	1 261	12
Earnings per share - cents	102.5	98.8	4
Cash earnings per share - cents	54.7	59.9	(9)
Dividends per share - cents	45	45	
Net assets - R million	18 626	18 446	1
Net assets per share - cents			
- at 31 August	1 354	1 341	1
- at 21 October 1993	1 271		

FINAL DIVIDEND

A final dividend of 29 cents (1992 - 29 cents) per ordinary share will be paid on 25 November 1993 to shareholders registered on 5 November 1993. The register of members will be closed from 8 November to 19 November 1993. Currency conversion - 15 November 1993. A profit announcement giving more detailed information will be mailed to shareholders. Copies may also be obtained from the London Secretaries: 30 Ely Place, London, EC1N 6UA.

On behalf of the board

B P Gilbertson
D N A Hunt-Davis

Johannesburg
25 October 1993

Gencor Limited

(Incorporated in the Republic of South Africa)

Registration No: 01/01232/06

84 Marshall Street

Johannesburg 2001

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FT/ISMA INTERNATIONAL BOND SERVICE									
US DOLLAR STRAIGHTS									
Issued	Price	Yield	Term	Amount	Price	Yield	Term	Amount	Price
Alusaf R7.2 billion	100.00	6.71%	10Y	7,200	100.00	6.71%	10Y	7,200	100.00
Columbus R3.5 billion	100.00	6.71%	10Y	3,500	100.00	6.71%	10Y	3,500	100.00
US DOLLAR STRAIGHTS (continued)									
Alusaf R7.2 billion	100.00	6.71%	10Y	7,200	100.00	6.71%	10Y	7,200	100.00
Columbus R3.5 billion	100.00	6.71%	10Y	3,500	100.00	6.71%	10Y	3,500	100.00
US DOLLAR STRAIGHTS (continued)									
Alusaf R7.2 billion	100.00	6.71%	10Y	7,200	100.00	6.71%	10Y	7,200	100.00
Columbus R3.5 billion	100.00	6.71%	10Y	3,500	100.00	6.71%	10Y	3,500	100.00
US DOLLAR STRAIGHTS (continued)									
Alusaf R7.2 billion	100.00	6.71%	10Y	7,200	100.00	6.71%	10Y	7,200	100.00
Columbus R3.5 billion	100.00	6.71%	10Y	3,500	100.00	6.71%	10Y	3,500	100.00
US DOLLAR STRAIGHTS (continued)									
Alusaf R7.2 billion	100.00	6.71%	10Y	7,200	100.00	6.71%	10Y	7,200	100.00
Columbus R3.5 billion	100.00	6.71%	10Y	3,500	100.00	6.71%	10Y	3,500	100.00
US DOLLAR STRAIGHTS (continued)									
Alusaf R7.2 billion	100.00	6.71%	10Y	7,200	100.00	6.71%	10Y	7,200	100.00
Columbus R3.5 billion	100.00	6.71%	10Y	3,500	100.00	6.71%	10Y	3,500	100.00
US DOLLAR STRAIGHTS (continued)									
Alusaf R7.2 billion	100.00	6.71%	10Y	7,200	100.00	6.71%	10Y	7,200	100.00
Columbus R3.5 billion	100.00	6.71%	10Y	3,500	100.00	6.71%	10Y	3,500	100.00
US DOLLAR STRAIGHTS (continued)									
Alusaf R7.2 billion	100.00	6.71%	10Y	7,200	100.00	6.71%	10Y	7,200	100.00
Columbus R3.5 billion	100.00	6.71%	10Y	3,500	100.00	6.71%	10Y	3,500	100.00
US DOLLAR STRAIGHTS (continued)									
Alusaf R7.2 billion	100.00	6.71%	10Y	7,200	100.00	6.71%	10Y	7,200	100.00
Columbus R3.5 billion	100.00	6.71%	10Y	3,500	100.00	6.71%	10Y	3,500	100.00
US DOLLAR STRAIGHTS (continued)									
Alusaf R7.2 billion	100.00	6.71%	10Y	7,200	100.00	6.71%	10Y	7,200	100.00
Columbus R3.5 billion	100.00	6.71%	10Y	3,500	100.00	6.71%	10Y	3,500	100.00
US DOLLAR STRAIGHTS (continued)									
Alusaf R7.2 billion	100.00	6.71%	10Y	7,200	100.00	6.71%	10Y	7,200	100.00
Columbus R3.5 billion	100.00	6.71%	10Y	3,500	100.00	6.71%	10Y	3,500	100.00
US DOLLAR STRAIGHTS (continued)									
Alusaf R7.2 billion	100.00	6.71%	10Y	7,200	100.00	6.71%	10Y	7,200	100.00
Columbus R3.5 billion	100.00	6.71%	10Y	3,500	100.00	6.71%	10Y	3,500	100.00
US DOLLAR STRAIGHTS (continued)									
Alusaf R7.2 billion	100.00	6.71%	10Y	7,200	100.00	6.71%	10Y	7,200	100.00
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US DOLLAR STRAIGHTS (continued)									
Alusaf R7.2 billion	100.00	6.71%	10Y	7,200	100.00	6.71%	10Y	7,200	100.00
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US DOLLAR STRAIGHTS (continued)									
Alusaf R7.2 billion	100.00	6.71%	10Y	7,200	100.00	6.71%	10Y	7,200	100.00
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US DOLLAR STRAIGHTS (continued)									
Alusaf R7.2 billion	100.00	6.71%	10Y	7,200	100.00	6.71%	10Y	7,200	100.00
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US DOLLAR STRAIGHTS (continued)									
Alusaf R7.2 billion	100.00	6.71%	10Y	7,200	100.00	6.71%	10Y	7,200	100.00
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US DOLLAR STRAIGHTS (continued)									
Alusaf R7.2 billion	100.00	6.71%	10Y	7,200	100.00	6.71%	10Y	7,200	100.00
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US DOLLAR STRAIGHTS (continued)									
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US DOLLAR STRAIGHTS (continued)									
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US DOLLAR STRAIGHTS (continued)									
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US DOLLAR STRAIGHTS (continued)									
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US DOLLAR STRAIGHTS (continued)									
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US DOLLAR STRAIGHTS (continued)									
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US DOLLAR STRAIGHTS (continued)									
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US DOLLAR STRAIGHTS (continued)									
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US DOLLAR STRAIGHTS (continued)									
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US DOLLAR STRAIGHTS (continued)									
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US DOLLAR STRAIGHTS (continued)									
Alusaf R7.2 billion	100.00	6.71%	10Y	7,200	100.00	6.71%	10Y	7,200	100.00
Columbus R3.5 billion	100.00	6.71%	10Y	3,500	100.00	6.71%	10Y	3,500	100.00
US DOLLAR STRAIGHTS (continued)									
Alusaf R7.2 billion	100.00	6.71%	10Y	7,200	100.00	6.71%	10Y		

This announcement is neither an offer to sell nor a solicitation of an offer to buy any of these securities. The offering is made only by the Prospectus.

New Issue/October 20, 1993

13,000,000 Shares



Perrigo Company

Common Stock

Price \$31 Per Share

Copies of the Prospectus may be obtained in any Jurisdiction in which this announcement is circulated from only such of the Underwriters, including the undersigned, as may lawfully offer these securities in such Jurisdiction.

2,600,000 Shares
International Offering

J.P.Morgan Securities Ltd.

Morgan Stanley International

Smith Barney Shearson Inc.

Dean Witter International Ltd.

ABN AMRO Bank N.V.

Banque Indosuez

Paribas Capital Markets

Dresdner Bank
Aktiengesellschaft

Robert Fleming & Co. Limited

Nomura International

UBS Limited

Westdeutsche Landesbank
Girozentrale

Yamaichi International (Europe) Limited

10,400,000 Shares
United States Offering

J.P.Morgan Securities Inc.

Morgan Stanley & Co.
Incorporated

Smith Barney Shearson Inc.

Dean Witter Reynolds Inc.

Bear, Stearns & Co. Inc.

Cowen & Company

Dillon, Read & Co. Inc.

Donaldson, Lufkin & Jenrette
Securities Corporation

A.G. Edwards & Sons, Inc.

Goldman, Sachs & Co.

Kidder, Peabody & Co.
Incorporated

Lehman Brothers

Merrill Lynch & Co.

PaineWebber Incorporated

Prudential Securities Incorporated

Wertheim Schroder & Co.
Incorporated

Advest, Inc.

Robert W. Baird & Co.
Incorporated

Barington Capital Group, L.P.

William Blair & Company

First Analysis Securities Corporation

First of Michigan Corporation

Furman Selz
Incorporated

Gruntal & Co., Incorporated

C.J. Lawrence/Deutsche Bank Securities
Corporation

McDonald & Company
Securities, Inc.

Neuberger & Berman

Piper Jaffray Inc.

Roney & Co.

Tucker Anthony
Incorporated

**AUTHORISED
UNIT TRUSTS**

NETHERLANDS (continued)

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2003	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989	1988	1987	1986	1985	1984	1983	1982	1981	1980	1979	1978	1977	1976	1975	1974	1973	1972	1971	1970	1969	1968	1967	1966	1965	1964	1963	1962	1961	1960	1959	1958	1957	1956	1955	1954	1953	1952	1951	1950	1949	1948	1947	1946	1945	1944	1943	1942	1941	1940	1939	1938	1937	1936	1935	1934	1933	1932	1931	1930	1929	1928	1927	1926	1925	1924	1923	1922	1921	1920	1919	1918	1917	1916	1915	1914	1913	1912	1911	1910	1909	1908	1907	1906	1905	1904	1903	1902	1901	1900	1899	1898	1897	1896	1895	1894	1893	1892	1891	1890	1889	1888	1887	1886	1885	1884	1883	1882	1881	1880	1879	1878	1877	1876	1875	1874	1873	1872	1871	1870	1869	1868	1867	1866	1865	1864	1863	1862	1861	1860	1859	1858	1857	1856	1855	1854	1853	1852	1851	1850	1849	1848	1847	1846	1845	1844	1843	1842	1841	1840	1839	1838	1837	1836	1835	1834	1833	1832	1831	1830	1829	1828	1827	1826	1825	1824	1823	1822	1821	1820	1819	1818	1817	1816	1815	1814	1813	1812	1811	1810	1809	1808	1807	1806	1805	1804	1803	1802	1801	1800	1799	1798	1797	1796	1795	1794	1793	1792	1791	1790	1789	1788	1787	1786	1785	1784	1783	1782	1781	1780	1779	1778	1777	1776	1775	1774	1773	1772	1771	1770	1769	1768	1767	1766	1765	1764	1763	1762	1761	1760	1759	1758	1757	1756	1755	1754	1753	1752	1751	1750	1749	1748	1747	1746	1745	1744	1743	1742	1741	1740	1739	1738	1737	1736	1735	1734	1733	1732	1731	1730	1729	1728	1727	1726	1725	1724	1723	1722	1721	1720	1719	1718	1717	1716	1715	1714	1713	1712	1711	1710	1709	1708	1707	1706	1705	1704	1703	1702	1701	1700	1699	1698	1697	1696	1695	1694	1693	1692	1691	1690	1689	1688	1687	1686	1685	1684	1683	1682	1681	1680	1679	1678	1677	1676	1675	1674	1673	1672	1671	1670	1669	1668	1667	1666	1665	1664	1663	1662	1661	1660	1659	1658	1657	1656	1655	1654	1653	1652	1651	1650	1649	1648	1647	1646	1645	1644	1643	1642	1641	1640	1639	1638	1637	1636	1635	1634	1633	1632	1631	1630	1629	1628	1627	1626	1625	1624	1623	1622	1621	1620	1619	1618	1617	1616	1615	1614	1613	1612	1611	1610	1609	1608	1607	1606	1605	1604	1603	1602	1601	1600	1599	1598	1597	1596	1595	1594	1593	1592	1591	1590	1589	1588	1587	1586	1585	1584	1583	1582	1581	1580	1579	1578	1577	1576	1575	1574	1573	1572	1571	1570	1569	1568	1567	1566	1565	1564	1563	1562	1561	1560	1559	1558	1557	1556	1555	1554	1553	1552	1551	1550	1549	1548	1547	1546	1545	1544	1543	1542	1541	1540	1539	1538	1537	1536	1535	1534	1533	1532	1531	1530	1529	1528	1527	1526	1525	1524	1523	1522	1521	1520	1519	1518	1517	1516	1515	1514	1513	1512	1511	1510	1509	1508	1507	1506	1505	1504	1503	1502	1501	1500	1499	1498	1497	1496	1495	1494	1493	1492	1491	1490	1489	1488	1487	1486	1485	1484	1483	1482	1481	1480	1479	1478	1477	1476	1475	1474	1473	1472	1471	1470	1469	1468	1467	1466	1465	1464	1463	1462	1461	1460	1459	1458	1457	1456	1455	1454	1453	1452	1451	1450	1449	1448	1447	1446	1445	1444	1443	1442	1441	1440	1439	1438	1437	1436	1435	1434	1433	1432	1431	1430	1429	1428	1427	1426	1425	1424	1423	1422	1421	1420	1419	1418	1417	1416	1415	1414	1413	1412	1411	1410	1409	1408	1407	1406	1405	1404	1403	1402	1401	1400	1399	1398	1397	1396	1395	1394	1393	1392	1391	1390	1389	1388	1387	1386	1385	1384	1383	1382	1381	1380	1379	1378	1377	1376	1375	1374	1373	1372	1371	1370	1369	1368	1367	1366	1365	1364	1363	1362	1361	1360	1359	1358	1357	1356	1355	1354	1353	1352	1351	1350	1349	1348	1347	1346	1345	1344	1343	1342	1341	1340	1339	1338	1337	1336	1335	1334	1333	1332	1331	1330	1329	1328	1327	1326	1325	1324	1323	1322	1321	1320	1319	1318	1317	1316	1315	1314	1313	1312	1311	1310	1309	1308	1307	1306	1305	1304	1303	1302	1301	1300	1299	1298	1297	1296	1295	1294	1293	1292	1291	1290	1289	1288	1287	1286	1285	1284	1283	1282	1281	1280	1279	1278	1277	1276	1275	1274	1273	1272	1271	1270	1269	1268	1267	1266	1265	1264	1263	1262	1261	1260	1259	1258	1257	1256	1255	1254	1253	1252	1251	1250	1249	1248	1247	1246	1245	1244	1243	1242	1241	1240	1239	1238	1237	1236	1235	1234	1233	1232	1231	1230	1229	1228	1227	1226	1225	1224	1223	1222	1221	1220	1219	1218	1217	1216	1215	1214	1213	1212	1211	1210	1209	1208	1207	1206	1205	1204	1203	1202	1201	1200	1199	1198	1197	1196	1195	1194	1193	1192	1191	1190	1189	1188	1187	1186	1185	1184	1183	1182	1181	1180	1179	1178	1177	1176	1175	1174	1173	1172	1171	1170	1169	1168	1167	1166	1165	1164	1163	1162	1161	1160	1159	1158	1157	1156	1155	1154	1153	1152	1151	1150	1149	1148	1147	1146	1145	1144	1143	1142	1141	1140	1139	1138	1137	1136	1135	1134	1133	1132	1131	1130	1129	1128	1127	1126	1125	1124	1123	1122	1121	1120	1119	1118	1117	1116	1115	1114	1113	1112	1111	1110	1109	1108	1107	1106	1105	1104	1103	1102	1101	1100	1099	1098	1097	1096	1095	1094	1093	1092	1091	1090	1089	1088	1087	1086	1085	1084	1083	1082	1081	1080	1079	1078	1077	1076	1075	1074	1073	1072	1071	1070	1069	1068	1067	1066	1065	1064	1063	1062	1061	1060	1059	1058	1057	1056	1055	1054	1053	1052	1051	1050	1049	1048	1047	1046	1045	1044	1043	1042	1041	1040	1039	1038	1037	1036	1035	1034	1033	1032	1031	1030	1029	1028	1027	1026	1025	1024	1023	1022	1021	1020	1019	1018	1017	1016	1015	1014	1013	1012	1011	1010	1009	1008	1007	1006	1005	1004	1003	1002	1001	1000	999	998	997	996	995	994	993	992	991	990	989	988	987	986	985	984	983	982	981	980	979	978	977	976	975	974	973	972	971	970	969	968	967	966	965	964	963	962	961	960	959	958	957	956	955	954	953	952	951	950	949	948	947	946	945	944	943	942	941	940	939	938	937	936	935	934	933	932	931	930	929	928	927	926	925	924	923	922	921	920	919	918	917	916	915	914	913	912	911	910	909	908	907	906	905	904	903	902	901	900	899	898	897	896	895	894	893	892	891	890	889	888	887	886	885	884	883	882	881	880	879	878	877	876	875	874	873	872	871	870	869	868	867	866	865	864	863	862	861	860	859	858	857	856	855	854	853	852	851	850	849	848	847	846	845	844	843	842	841	840	839	838	837	836	835	834	833	832	831	830	829	828	827	826	825	824	823	822	821	820	819	818	817	816	815	814	813	812	811	810	809	808	807	806	805	804	803	802	801	800	799	798	797	796	795	794	793	792	791	790	789	788	787	786	785	784	783	782	781	780	779	778	777	776	775	774	773	772	771	770	769	768	767	766	765	764	763	762	761	760	759	758	757	756	755	754	753	752	751	750	749	748	747	746	745	744	743	742	741	740	739	738	737	736	735	734	733	732	731	730	729	728	727	726	725	724	723	722	721	720	719	718	717	716	715	714	713	712	711	710	709	708	707	706	705	704	703	702	701	700	699	698	697	696	695	694	693	692	691	690	689	688	687	686	685	684	683	682	681	680	679	678	677	676	675	674	673	672	671	670	669	668	667	666	665	664	663	662	661	660	659	658	657	656	655	654	653	652	651	650	649	648	647	646	645	644	643	642	641	640	639	638	637	636	635	634	633	632	631	630	629	628	627	626	625	624	623	622	621	620	619	618	617	616	615	614	613	612	611	610	609	608	607	606	605	604	603	602	601	600	599	598	597	596	595	594	593	592	591	590	589	588	587	586	585	584	583	582
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1990		October 22		P.L.S.	
High	Low	High	Low	High	Low
TD	25.75	Amey Pacific	9.35		
10	8.80	Century Pacific	12		
11	36.85	Century Pacific	12		
12	63.32	Chin Light	20.25		
13	63.32	Chin Light	20.25		
14	20.15	Chin Light	20.25		
15	15.10	Chin Light	20.25		
16	15.10	Chin Light	20.25		
17	15.10	Chin Light	20.25		
18	15.10	Chin Light	20.25		
19	15.10	Chin Light	20.25		
20	15.10	Chin Light	20.25		
21	15.10	Chin Light	20.25		
22	15.10	Chin Light	20.25		
23	15.10	Chin Light	20.25		
24	15.10	Chin Light	20.25		
25	15.10	Chin Light	20.25		
26	15.10	Chin Light	20.25		
27	15.10	Chin Light	20.25		
28	15.10	Chin Light	20.25		
29	15.10	Chin Light	20.25		
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36	15.10	Chin Light	20.25		
37	15.10	Chin Light	20.25		
38	15.10	Chin Light	20.25		
39	15.10	Chin Light	20.25		
40	15.10	Chin Light	20.25		
41	15.10	Chin Light	20.25		
42	15.10	Chin Light	20.25		
43	15.10	Chin Light	20.25		
44	15.10	Chin Light	20.25		
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63	15.10	Chin Light	20.25		
64	15.10	Chin Light	20.25		
65	15.10	Chin Light	20.25		
66	15.10	Chin Light	20.25		
67	15.10	Chin Light	20.25		
68	15.10	Chin Light	20.25		
69	15.10	Chin Light	20.25		
70	15.10	Chin Light	20.25		
71	15.10	Chin Light	20.25		
72	15.10	Chin Light	20.25		
73	15.10	Chin Light	20.25		
74	15.10	Chin Light	20.25		
75	15.10	Chin Light	20.25		
76	15.10	Chin Light	20.25		
77	15.10	Chin Light	20.25		
78	15.10	Chin Light	20.25		
79	15.10	Chin Light	20.25		
80	15.10	Chin Light	20.25		

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729	497	Hanley Corp _____	800	1,560	236	Mitchell T-28K _____	1,470
805	382	Honolulu B Flyer ..	535	1,980	1,180	Mitsubishi Warehouse .	1,770

1,840	4.70	2.80	Asst Gen Light	5.30	2.40	Malayan United Ind	4.80	
Elect Pwr	2,990	1.97	1.43	Asst Nat Inds	5.60	1.55	Muti Purpose	5.50
Corp	678	17.82	12.98	BHP	2.68	1.40	Public Bank	2.45
		7.28						

_____ 1,050	3.95	2.80	Bornl	3.10	
_____ 1,320	6.80	0.38	Bourville Copper	0.70	
_____ 1,180	17.04	12.24	Brasseries Indes	12.82	
MI Jutaka 982	0.80	0.44	Bridge Oil	0.75	
Swintone 555	1.00	0.87	Brown Iron		

High	Low	October 22	YTD
10.70	8.90	DBS	10.30

and sales	1,246	2.78	202	Coltes Acol	15.70	17.83	10	Fraser & Neave	15.30
net profit	2,010	3	1.86	Carters Hotel	2.70	16.80	160	Sending	16.80
total assets	1,900	11.88	3.70	China Hot Hwy	2.70	3.50	10	General	15.30
net profit	4,900	11.88	3.70	China Koa Aerial	18	3.72	230	Horn Pagar	3.82
and sales	740	4.10	3	China Moly	5.33	7.16	540	Indochina	3.02
net profit	535	10	5.85	Comesco	3.62	10.99	540	Nagad Corp	6.10
no bank	2,420	1.46	0.70	Consolidated	1.51	14.70	945	Nguyen Corp	10.50
and sales	990	4.72	0.23	Credit	1.51	6.70	480	ONGC	0.25
net profit	450	0.80	0.33	Dominion Hwy	0.33	14.40	845	ONS	0.25
total assets	450	0.80	0.33	Domestic	0.33	14.40	845	Sports Air Free	12.90

no Elect .. 1,350	1.00	1.18	Energy Res .. 1,02	3.84	8.40	Singapore Press .. 13.80
no Heavy 482	0.88	0.39	FAI Insurance .. 1.42	2.88		Strait Trading .. 3.38
no Load 478	3.35	1.68	Fairfax .. 0.87	3.54	2.45	Tai Lee Bank .. 3.48
	4.50			0		

to Marine	934	3.20	1.98	Fletcher Chingla	3.14	3.65	008	8.65
to Metal Ind	320	1.47	1.11	Fosters Browing	1.42			
to New	one	2.95	2.60	Gan Pro 1st	2.42			

no Realty	756	3.17	2.03	SHO Australia	2.30
to 1st Bk	1,460	1.44	0.63	Old Mill Kellogg	3.15
Blackboard	814	1.76	1.40	Goodman Building	1.14

404r	905	2.75	2.00	Handle (L)	1.51
		1.46	0.68	Highlands Gold	2.20
		2.50	0.70	Mountain Gold	1.15
				Mountain Gold	2.20

0	5.70	ICI Aust	2.18
2.90	1.42	Kidation Gold	8.78
18.62	13.88	1st Nat'l Bank	2.70

2.52	Wien Northern	18.60
2.55	Wien Northern	2.55

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the 1990s, the number of people in the United States who are 65 years of age or older is projected to increase from 20 million to 30 million, and the number of people 75 years of age or older is projected to increase from 10 million to 15 million (U.S. Census Bureau, 1996). The number of people 85 years of age or older is projected to increase from 2 million to 4 million (U.S. Census Bureau, 1996). The number of people 90 years of age or older is projected to increase from 500,000 to 1 million (U.S. Census Bureau, 1996). The number of people 95 years of age or older is projected to increase from 100,000 to 200,000 (U.S. Census Bureau, 1996). The number of people 100 years of age or older is projected to increase from 10,000 to 20,000 (U.S. Census Bureau, 1996).

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CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGE AND MONEY MARKETS

Stronger dollar seen

ECONOMISTS and foreign exchange dealers are expecting the US dollar to continue its recent strength if key economic data due on Thursday comes in as forecast, writes Peter John.

US data has been slightly more positive for the economy following the recent disappointing non-farm payroll figures and many hope that the figures for third quarter US gross domestic product will consolidate that improvement.

UK clearing bank base lending rate 6 per cent from January 26, 1993.

Mr Jonathan Hoffman, economist with Credit Suisse First Boston, said the figure would be viewed by the market as the headline figure should be adjusted up to get a true picture. The market is looking for a rise over the past quarter of 2.7 per cent.

"The dollar is on a bull run at the moment and if we get an good underlying figure per cent we could go through

DM1.70 this week," says Mr Hoffman.

A rise in the US currency is likely to be particularly noticeable against the German exchange community assets further interest rate reductions by the Bundesbank following last Thursday's cuts in the discount and Lombard rates.

Additional impetus for lower lending levels, at least for the repo rate, could come from the German CPI data due this week.

A shift below 4 per cent in the annual rate to between 3.8 per cent and 3.7 per cent, may well show the way to a another cut.

In the UK, market pressure for a one-point cut in base rates could continue as a spate of reductions in continental Europe at the end of last week suggested that the current UK level might be unnecessarily solid.

Economists will be looking at the CBI's survey of industrial trends tomorrow for any clues to easier monetary policy.

POUND SPOT - FORWARD AGAINST THE POUND

Date	Day's spread	Close	One month	Three months	Six months
Oct 22	1.4705	1.4705	1.4705	1.4705	1.4705
Oct 23	1.4705	1.4705	1.4705	1.4705	1.4705
Oct 24	1.4705	1.4705	1.4705	1.4705	1.4705
Oct 25	1.4705	1.4705	1.4705	1.4705	1.4705
Oct 26	1.4705	1.4705	1.4705	1.4705	1.4705
Oct 27	1.4705	1.4705	1.4705	1.4705	1.4705
Oct 28	1.4705	1.4705	1.4705	1.4705	1.4705
Oct 29	1.4705	1.4705	1.4705	1.4705	1.4705
Oct 30	1.4705	1.4705	1.4705	1.4705	1.4705
Oct 31	1.4705	1.4705	1.4705	1.4705	1.4705

DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

Date	Day's spread	Close	One month	Three months	Six months
Oct 22	1.4705	1.4705	1.4705	1.4705	1.4705
Oct 23	1.4705	1.4705	1.4705	1.4705	1.4705
Oct 24	1.4705	1.4705	1.4705	1.4705	1.4705
Oct 25	1.4705	1.4705	1.4705	1.4705	1.4705
Oct 26	1.4705	1.4705	1.4705	1.4705	1.4705
Oct 27	1.4705	1.4705	1.4705	1.4705	1.4705
Oct 28	1.4705	1.4705	1.4705	1.4705	1.4705
Oct 29	1.4705	1.4705	1.4705	1.4705	1.4705
Oct 30	1.4705	1.4705	1.4705	1.4705	1.4705
Oct 31	1.4705	1.4705	1.4705	1.4705	1.4705

EXCHANGE CROSS RATES

Date	Day's spread	Close	One month	Three months	Six months
Oct 22	1.4705	1.4705	1.4705	1.4705	1.4705
Oct 23	1.4705	1.4705	1.4705	1.4705	1.4705
Oct 24	1.4705	1.4705	1.4705	1.4705	1.4705
Oct 25	1.4705	1.4705	1.4705	1.4705	1.4705
Oct 26	1.4705	1.4705	1.4705	1.4705	1.4705
Oct 27	1.4705	1.4705	1.4705	1.4705	1.4705
Oct 28	1.4705	1.4705	1.4705	1.4705	1.4705
Oct 29	1.4705	1.4705	1.4705	1.4705	1.4705
Oct 30	1.4705	1.4705	1.4705	1.4705	1.4705
Oct 31	1.4705	1.4705	1.4705	1.4705	1.4705

EURO-CURRENCY INTEREST RATES

Date	Day's spread	Close	One month	Three months	Six months
Oct 22	1.4705	1.4705	1.4705	1.4705	1.4705
Oct 23	1.4705	1.4705	1.4705	1.4705	1.4705
Oct 24	1.4705	1.4705	1.4705	1.4705	1.4705
Oct 25	1.4705	1.4705	1.4705	1.4705	1.4705
Oct 26	1.4705	1.4705	1.4705	1.4705	1.4705
Oct 27	1.4705	1.4705	1.4705	1.4705	1.4705
Oct 28	1.4705	1.4705	1.4705	1.4705	1.4705
Oct 29	1.4705	1.4705	1.4705	1.4705	1.4705
Oct 30	1.4705	1.4705	1.4705	1.4705	1.4705
Oct 31	1.4705	1.4705	1.4705	1.4705	1.4705

FT LONDON INTERBANK FIXING

Date	Day's spread	Close	One month	Three months	Six months
Oct 22	1.4705	1.4705	1.4705	1.4705	1.4705
Oct 23	1.4705	1.4705	1.4705	1.4705	1.4705
Oct 24	1.4705	1.4705	1.4705	1.4705	1.4705
Oct 25	1.4705	1.4705	1.4705	1.4705	1.4705
Oct 26	1.4705	1.4705	1.4705	1.4705	1.4705
Oct 27	1.4705	1.4705	1.4705	1.4705	1.4705
Oct 28	1.4705	1.4705	1.4705	1.4705	1.4705
Oct 29	1.4705	1.4705	1.4705	1.4705	1.4705
Oct 30	1.4705	1.4705	1.4705	1.4705	1.4705
Oct 31	1.4705	1.4705	1.4705	1.4705	1.4705

MONEY RATES

Date	Day's spread	Close	One month	Three months	Six months
Oct 22	1.4705	1.4705	1.4705	1.4705	1.4705
Oct 23	1.4705	1.4705	1.4705	1.4705	1.4705
Oct 24	1.4705	1.4705	1.4705	1.4705	1.4705
Oct 25	1.4705	1.4705	1.4705	1.4705	1.4705
Oct 26	1.4705	1.4705	1.4705	1.4705	1.4705
Oct 27	1.4705	1.4705	1.4705	1.4705	1.4705
Oct 28	1.4705	1.4705	1.4705	1.4705	1.4705
Oct 29	1.4705	1.4705	1.4705	1.4705	1.4705
Oct 30	1.4705	1.4705	1.4705	1.4705	1.4705
Oct 31	1.4705	1.4705	1.4705	1.4705	1.4705

LONDON MONEY RATES

Date	Day's spread	Close	One month	Three months	Six months
Oct 22	1.4705	1.4705	1.4705	1.4705	1.4705
Oct 23	1.4705	1.4705	1.4705	1.4705	1.4705
Oct 24	1.4705	1.4705	1.4705	1.4705	1.4705
Oct 25	1.4705	1.4705	1.4705	1.4705	1.4705
Oct 26	1.4705	1.4705	1.4705	1.4705	1.4705
Oct 27	1.4705	1.4705	1.4705	1.4705	1.4705
Oct 28	1.4705	1.4705	1.4705	1.4705	1.4705
Oct 29	1.4705	1.4705	1.4705	1.4705	1.4705
Oct 30	1.4705	1.4705	1.4705	1.4705	1.4705
Oct 31	1.4705	1.4705	1.4705	1.4705	1.4705

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co. and NatWest Securities Limited in conjunction with the Institute of Actuaries and the Faculty of Actuaries

Date	Day's spread	Close	One month	Three months	Six months
Oct 22	1.4705	1.4705	1.4705	1.4705	1.4705
Oct 23	1.4705	1.4705	1.4705	1.4705	1.4705
Oct 24	1.4705	1.4705	1.4705	1.4705	1.4705
Oct 25	1.4705	1.4705	1.4705	1.4705	1.4705
Oct 26	1.4705	1.4705	1.4705	1.4705	1.4705
Oct 27	1.4705	1.4705	1.4705	1.4705	1.4705
Oct 28	1.4705	1.4705	1.4705	1.4705	1.4705
Oct 29	1.4705	1.4705	1.4705	1.4705	1.4705
Oct 30	1.4705	1.4705	1.4705	1.4705	1.4705
Oct 31	1.4705	1.4705	1.4705	1.4705	1.4705

LONDON RECENT ISSUES

Date	Day's spread	Close	One month	Three months	Six months
Oct 22	1.4705	1.4705	1.4705	1.4705	1.4705
Oct 23	1.4705	1.4705	1.4705	1.4705	1.4705
Oct 24	1.4705	1.4705	1.4705	1.4705	1.4705
Oct 25	1.4705	1.4705	1.4705	1.4705	1.4705
Oct 26	1.4705	1.4705	1.4705	1.4705	1.4705
Oct 27	1.4705	1.4705	1.4705	1.4705	1.4705
Oct 28	1.4705	1.4705	1.4705	1.4705	1.4705
Oct 29	1.4705	1.4705	1.4705	1.4705	1.4705
Oct 30	1.4705	1.4705	1.4705	1.4705	1.4705
Oct 31	1.4705	1.4705	1.4705	1.4705	1.4705

FIXED INTEREST STOCKS

Date	Day's spread	Close	One month	Three months	Six months
Oct 22	1.4705	1.4705	1.4705	1.4705	1.4705
Oct 23	1.4705	1.4705	1.4705	1.4705	1.4705
Oct 24	1.4705	1.4705	1.4705	1.4705	1.4705
Oct 25	1.4705	1.4705	1.4705	1.4705	1.4705
Oct 26	1.4705	1.4705	1.4705	1.4705	1.4705
Oct 27	1.4705	1.4705	1.4705	1.4705	1.4705
Oct 28	1.4705	1.4705	1.4705	1.4705	1.4705
Oct 29	1.4705	1.4705	1.4705	1.4705	1.4705
Oct 30	1.4705	1.4705	1.4705	1.4705	1.4705
Oct 31	1.4705	1.4705	1.4705	1.4705	1.4705

RIGHTS OFFERS

Date	Day's spread	Close	One month	Three months	Six months
Oct 22	1.4705	1.4705	1.4705	1.4705	1.4705
Oct 23	1.4705	1.4705	1.4705	1.4705	1.4705
Oct 24	1.4705	1.4705	1.4705	1.4705	1.4705
Oct 25	1.4705	1.4705	1.4705	1.4705	1.4705
Oct 26	1.4705	1.4705	1.4705	1.4705	1.4705
Oct 27	1.4705	1.4705	1.4705	1.4705	1.4705
Oct 28	1.4705	1.4705	1.4705	1.4705	1.4705
Oct 29	1.4705	1.4705	1.4705	1.4705	1.4705
Oct 30	1.4705	1.4705	1.4705	1.4705	1.4705
Oct 31	1.4705	1.4705	1.4705	1.4705	1.4705

BANK OF ENGLAND TREASURY BILL TENDER

Date	Day's spread	Close	One month	Three months	Six months
Oct 22	1.4705	1.4705	1.4705	1.4705	1.4705
Oct 23	1.4705	1.4705	1.4705	1.4705	1.4705
Oct 24	1.4705	1.4705	1.4705	1.4705	1.4705
Oct 25	1.4705	1.4705	1.4705	1.4705	1.4705
Oct 26	1.4705	1.4705	1.4705	1.4705	1.4705
Oct 27	1.4705	1.4705	1.4705	1.4705	1.4705
Oct 28	1.4705	1.4705	1.4705	1.4705	1.4705
Oct 29	1.4705	1.4705	1.4705	1.4705	1.4705
Oct 30	1.4705	1.4705	1.4705	1.4705	1.4705
Oct 31	1.4705	1.4705	1.4705	1.4705	1.4705

WEEKLY CHANGE IN WORLD INTEREST RATES

Date	Day's spread	Close	One month	Three months	Six months
Oct 22	1.4705	1.4705	1.4705	1.4705	1.4705
Oct 23	1.4705	1.4705	1.4705	1.4705	1.4705
Oct 24	1.4705	1.4705	1.4705	1.4705	1.4705
Oct 25	1.4705	1.4705	1.4705	1.4705	1.4705
Oct 26	1.4705	1.4705	1.4705	1.4705	1.4705
Oct 27	1.4705	1.4705	1.4705	1.4705	1.4705
Oct 28	1.4705	1.4705	1.4705	1.4705	1.4705
Oct 29	1.4705	1.4705	1.4705	1.4705	1.4705
Oct 30	1.4705	1.4705	1.4705	1.4705	1.4705
Oct 31	1.4705	1.4705	1.4705	1.4705	1.4705

BASE LENDING RATES

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INVESTMENT TRUSTS - Cont.

Index	Price	Wk %	Dist	Int
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مکاتمه

MINUTES - Cont.

Notes		WEEKLY Price change	Dly net	Dly cum	Deliverable paid	Last net	City Price
280	-1.25 02/10	0.00	0.00	0.00	18.0	1782	
287	0.25 02/10	1.5	1.5	1.5	18.0	1782	
288	0.00 02/10	0.00	0.00	0.00	18.0	1782	
289	0.00 02/10	0.00	0.00	0.00	18.0	1782	
290	0.00 02/10	0.00	0.00	0.00	18.0	1782	
291	0.00 02/10	0.00	0.00	0.00	18.0	1782	
292	0.00 02/10	0.00	0.00	0.00	18.0	1782	
293	0.00 02/10	0.00	0.00	0.00	18.0	1782	
294	0.00 02/10	0.00	0.00	0.00	18.0	1782	
295	0.00 02/10	0.00	0.00	0.00	18.0	1782	
296	0.00 02/10	0.00	0.00	0.00	18.0	1782	
297	0.00 02/10	0.00	0.00	0.00	18.0	1782	
298	0.00 02/10	0.00	0.00	0.00	18.0	1782	
299	0.00 02/10	0.00	0.00	0.00	18.0	1782	
300	0.00 02/10	0.00	0.00	0.00	18.0	1782	
301	0.00 02/10	0.00	0.00	0.00	18.0	1782	
302	0.00 02/10	0.00	0.00	0.00	18.0	1782	
303	0.00 02/10	0.00	0.00	0.00	18.0	1782	
304	0.00 02/10	0.00	0.00	0.00	18.0	1782	
305	0.00 02/10	0.00	0.00	0.00	18.0	1782	
306	0.00 02/10	0.00	0.00	0.00	18.0	1782	
307	0.00 02/10	0.00	0.00	0.00	18.0	1782	
308	0.00 02/10	0.00	0.00	0.00	18.0	1782	
309	0.00 02/10	0.00	0.00	0.00	18.0	1782	
310	0.00 02/10	0.00	0.00	0.00	18.0	1782	
311	0.00 02/10	0.00	0.00	0.00	18.0	1782	
312	0.00 02/10	0.00	0.00	0.00	18.0	1782	
313	0.00 02/10	0.00	0.00	0.00	18.0	1782	
314	0.00 02/10	0.00	0.00	0.00	18.0	1782	
315	0.00 02/10	0.00	0.00	0.00	18.0	1782	
316	0.00 02/10	0.00	0.00	0.00	18.0	1782	
317	0.00 02/10	0.00	0.00	0.00	18.0	1782	
318	0.00 02/10	0.00	0.00	0.00	18.0	1782	
319	0.00 02/10	0.00	0.00	0.00	18.0	1782	
320	0.00 02/10	0.00	0.00	0.00	18.0	1782	
321	0.00 02/10	0.00	0.00	0.00	18.0	1782	
322	0.00 02/10	0.00	0.00	0.00	18.0	1782	
323	0.00 02/10	0.00	0.00	0.00	18.0	1782	
324	0.00 02/10	0.00	0.00	0.00	18.0	1782	
325	0.00 02/10	0.00	0.00	0.00	18.0	1782	
326	0.00 02/10	0.00	0.00	0.00	18.0	1782	
327	0.00 02/10	0.00	0.00	0.00	18.0	1782	
328	0.00 02/10	0.00	0.00	0.00	18.0	1782	
329	0.00 02/10	0.00	0.00	0.00	18.0	1782	
330	0.00 02/10	0.00	0.00	0.00	18.0	1782	
331	0.00 02/10	0.00	0.00	0.00	18.0	1782	
332	0.00 02/10	0.00	0.00	0.00	18.0	1782	
333	0.00 02/10	0.00	0.00	0.00	18.0	1782	
334	0.00 02/10	0.00	0.00	0.00	18.0	1782	
335	0.00 02/10	0.00	0.00	0.00	18.0	1782	
336	0.00 02/10	0.00	0.00	0.00	18.0	1782	
337	0.00 02/10	0.00	0.00	0.00	18.0	1782	
338	0.00 02/10	0.00	0.00	0.00	18.0	1782	
339	0.00 02/10	0.00	0.00	0.00	18.0	1782	
340	0.00 02/10	0.00	0.00	0.00	18.0	1782	
341	0.00 02/10	0.00	0.00	0.00	18.0	1782	
342	0.00 02/10	0.00	0.00	0.00	18.0	1782	
343	0.00 02/10	0.00	0.00	0.00	18.0	1782	
344	0.00 02/10	0.00	0.00	0.00	18.0	1782	
345	0.00 02/10	0.00	0.00	0.00	18.0	1782	
346	0.00 02/10	0.00	0.00	0.00	18.0	1782	
347	0.00 02/10	0.00	0.00	0.00	18.0	1782	
348	0.00 02/10	0.00	0.00	0.00	18.0	1782	
349	0.00 02/10	0.00	0.00	0.00	18.0	1782	
350	0.00 02/10	0.00	0.00	0.00	18.0	1782	
351	0.00 02/10	0.00	0.00	0.00	18.0	1782	
352	0.00 02/10	0.00	0.00	0.00	18.0	1782	
353	0.00 02/10	0.00	0.00	0.00	18.0	1782	
354	0.00 02/10	0.00	0.00	0.00	18.0	1782	
355	0.00 02/10	0.00	0.00	0.00	18.0	1782	
356	0.00 02/10	0.00	0.00	0.00	18.0	1782	
357	0.00 02/10	0.00	0.00	0.00	18.0	1782	
358	0.00 02/10	0.00	0.00	0.00	18.0	1782	
359	0.00 02/10	0.00	0.00	0.00	18.0	1782	
360	0.00 02/10	0.00	0.00	0.00	18.0	1782	
361	0.00 02/10	0.00	0.00	0.00	18.0	1782	
362	0.00 02/10	0.00	0.00	0.00	18.0	1782	
363	0.00 02/10	0.00	0.00	0.00	18.0	1782	
364	0.00 02/10	0.00	0.00	0.00	18.0	1782	
365	0.00 02/10	0.00	0.00	0.00	18.0	1782	
366	0.00 02/10	0.00	0.00	0.00	18.0	1782	
367	0.00 02/10	0.00	0.00	0.00	18.0	1782	
368	0.00 02/10	0.00	0.00	0.00	18.0	1782	
369	0.00 02/10	0.00	0.00	0.00	18.0	1782	
370	0.00 02/10	0.00	0.00	0.00	18.0	1782	
371	0.00 02/10	0.00	0.00	0.00	18.0	1782	
372	0.00 02/10	0.00	0.00	0.00	18.0	1782	
373	0.00 02/10	0.00	0.00	0.00	18.0	1782	
374	0.00 02/10	0.00	0.00	0.00	18.0	1782	
375	0.00 02/10	0.00	0.00	0.00	18.0	1782	
376	0.00 02/10	0.00	0.00	0.00	18.0	1782	
377	0.00 02/10	0.00	0.00	0.00	18.0	1782	
378	0.00 02/10	0.00	0.00	0.00	18.0	1782	
379	0.00 02/10	0.00	0.00	0.00	18.0	1782	
380	0.00 02/10	0.00	0.00	0.00	18.0	1782	
381	0.00 02/10	0.00	0.00	0.00	18.0	1782	
382	0.00 02/10	0.00	0.00	0.00	18.0	1782	
383	0.00 02/10	0.00	0.00	0.00	18.0	1782	
384	0.00 02/10	0.00	0.00	0.00	18.0	1782	
385	0.00 02/10	0.00	0.00	0.00	18.0	1782	
386	0.00 02/10	0.00	0.00	0.00	18.0	1782	
387	0.00 02/10	0.00	0.00	0.00	18.0	1782	
388	0.00 02/10	0.00	0.00	0.00	18.0	1782	
389	0.00 02/10	0.00	0.00	0.00	18.0	1782	
390	0.00 02/10	0.00	0.00	0.00	18.0	1782	
391	0.00 02/10	0.00	0.00	0.00	18.0	1782	
392	0.00 02/10	0.00	0.00	0.00	18.0	1782	
393	0.00 02/10	0.00	0.00	0.00	18.0	1782	
394	0.00 02/10	0.00	0.00	0.00	18.0	1782	
395	0.00 02/10	0.00	0.00	0.00	18.0	1782	
396	0.00 02/10	0.00	0.00	0.00	18.0	1782	
397	0.00 02/10	0.00	0.00	0.00	18.0	1782	
398	0.00 02/10	0.00	0.00	0.00	18.0	1782	
399	0.00 02/10	0.00	0.00	0.00	18.0	1782	
400	0.00 02/10	0.00	0.00	0.00	18.0	1782	
401	0.00 02/10	0.00	0.00	0.00	18.0	1782	
402	0.00 02/10	0.00	0.00	0.00	18.0	1782	
403	0.00 02/10	0.00	0.00	0.00	18.0	1782	
404	0.00 02/10	0.00	0.00	0.00	18.0	1782	
405	0.00 02/10	0.00	0.00	0.00	18.0	1782	
406	0.00 02/10	0.00	0.00	0.00	18.0	1782	
407	0.00 02/10	0.00	0.00	0.00	18.0	1782	
408	0.00 02/10	0.00	0.00	0.00	18.0	1782	
409	0.00 02/10	0.00	0.00	0.00	18.0	1782	
410	0.00 02/10	0.00	0.00	0.00	18.0	1782	
411	0.00 02/10	0.00	0.00	0.00	18.0	1782	
412	0.00 02/10	0.00	0.00	0.00	18.0	1782	
413	0.00 02/10	0.00	0.00	0.00	18.0	1782	
414	0.00 02/10	0.00	0.00	0.00	18.0	1782	
415	0.00 02/10	0.00	0.00	0.00	18.0	1782	
416	0.00 02/10	0.00	0.00	0.00	18.0	1782	
417	0.00 02/10	0.00	0.00	0.00	18.0	1782	
418	0.00 02/10	0.00	0.00	0.00	18.0	1782	
419	0.00 02/10	0.00	0.00	0.00	18.0	1782	
420	0.00 02/10	0.00	0.00	0.00	18.0	1782	
421	0.00 02/10	0.00	0.00	0.00	18.0	1782	
422	0.00 02/10	0.00	0.00	0.00	18.0	1782	
423	0.00 02/10	0.00	0.00	0.00	18.0	1782	
424	0.00 02/10	0.00	0.00	0.00	18.0	1782	
425	0.00 02/10	0.00	0.00	0.00	18.0	1782	
426	0.00 02/10	0.00	0.00	0.00	18.0	1782	
427	0.00 02/10	0.00	0.00	0.00	18.0	1782	
428	0.00 02/10	0.00	0.00	0.00	18.0	1782	
429	0.00 02/10	0.00	0.00	0.00	18.0	1782	
430	0.00 02/10	0.00	0.00	0.00	18.0	1782	
431	0.00 02/10	0.00	0.00	0.00	18.0	1782	
432	0.00 02/10	0.00	0.00	0.00	18.0	1782	
433	0.00 02/10	0.00	0.00	0.00	18.0	1782	
434	0.00 02/10	0.00	0.00	0.00	18.0	1782	
435	0.00 02/10	0.00	0.00	0.00	18.0	1782	
436	0.00 02/10	0.00	0.00	0.00	18.0	1782	
437	0.00 02/10	0.00	0.00	0.00	18.0	1782	
438	0.00 02/10	0.00	0.00	0.00	18.0	1782	
439	0.00 02/10	0.00	0.00	0.00	18.0	1782	
440	0.00 02/10	0.00	0.00	0.00	18.0	1782	
441	0.00 02/10	0.00	0.00	0.00	18.0	1782	
442	0.00 02/10	0.00	0.00	0.00	18.0	1782	
443	0.00 02/10	0.00	0.00	0.00	18.0	1782	
444	0.00 02/10	0.00	0.00	0.00	18.0	1782	
445	0.00 02/10	0.00	0.00	0.00	18.0	1782	
446	0.00 02/10	0.00	0.00	0.00	18.0	1782	
447	0.00 02/10	0.00	0.00	0.00	18.0	1782	
448	0.						

Monte Carlo Grid 3.30

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14%	111 A.L. Latus E	1.00	2.5	25	25	25	25	25
14%	111 A.L. Latus F	1.00	2.5	25	25	25	25	25
14%	111 A.L. Latus G	1.00	2.5	25	25	25	25	25
14%	111 A.L. Latus H	1.00	2.5	25	25	25	25	25
14%	111 A.L. Latus I	1.00	2.5	25	25	25	25	25
14%	111 A.L. Latus J	1.00	2.5	25	25	25	25	25
14%	111 A.L. Latus K	1.00	2.5	25	25	25	25	25
14%	111 A.L. Latus L	1.00	2.5	25	25	25	25	25
14%	111 A.L. Latus M	1.00	2.5	25	25	25	25	25
14%	111 A.L. Latus N	1.00	2.5	25	25	25	25	25
14%	111 A.L. Latus O	1.00	2.5	25	25	25	25	25
14%	111 A.L. Latus P	1.00	2.5	25	25	25	25	25
14%	111 A.L. Latus Q	1.00	2.5	25	25	25	25	25
14%	111 A.L. Latus R	1.00	2.5	25	25	25	25	25
14%	111 A.L. Latus S	1.00	2.5	25	25	25	25	25
14%	111 A.L. Latus T	1.00	2.5	25	25	25	25	25
14%	111 A.L. Latus U	1.00	2.5	25	25	25	25	25
14%	111 A.L. Latus V	1.00	2.5	25	25	25	25	25
14%	111 A.L. Latus W	1.00	2.5	25	25	25	25	25
14%	111 A.L. Latus X	1.00	2.5	25	25	25	25	25
14%	111 A.L. Latus Y	1.00	2.5	25	25	25	25	25
14%	111 A.L. Latus Z	1.00	2.5	25	25	25	25	25
14%	111 A.L. Latus AA	1.00	2.5	25	25	25	25	25
14%	111 A.L. Latus AB	1.00	2.5	25	25	25	25	25
14%	111 A.L. Latus AC	1.00	2.5	25	25	25	25	25
14%	111 A.L. Latus AD	1.00	2.5	25	25	25	25	25
14%	111 A.L. Latus AE	1.00	2.5	25	25	25	25	25
14%	111 A.L. Latus AF	1.00	2.5	25	25	25	25	25
14%	111 A.L. Latus AG	1.00	2.5	25	25	25	25	25
14%	111 A.L. Latus AH	1.00	2.5	25	25	25	25	25
14%	111 A.L. Latus AI	1.00	2.5	25	25	25	25	25
14%	111 A.L. Latus AJ	1.00	2.5	25	25	25	25	25
14%	111 A.L. Latus AK	1.00	2.5	25	25	25	25	25
14%	111 A.L. Latus AL	1.00	2.5	25	25	25	25	25
14%	111 A.L. Latus AM	1.00	2.5	25	25	25	25	25
14%	111 A.L. Latus AN	1.00	2.5	25	25	25	25	25
14%	111 A.L. Latus AO	1.00	2.5	25	25	25	25	25
14%	111 A.L. Latus AP	1.00	2.5	25	25	25	25	25
14%	111 A.L. Latus AQ	1.00	2.5	25	25	25	25	25
14%	111 A.L. Latus AR	1.00	2.5	25	25	25	25	25
14%	111 A.L. Latus AS	1.00	2.5	25	25	25	25	25
14%	111 A.L. Latus AT	1.00	2.5	25	25	25	25	25
14%	111 A.L. Latus AU	1.00	2.5	25	25	25	25	25
14%	111 A.L. Latus AV	1.00	2.5	25	25	25	25	25
14%	111 A.L. Latus AW	1.00	2.5	25	25	25	25	25
14%	111 A.L. Latus AX	1.00	2.5	25	25	25	25	25
14%	111 A.L. Latus AY</							

Low	Low Stock	High	% of 1974	High	Low	Change
35	35	35	100	35	35	0
36	36	36	100	36	36	0
37	37	37	100	37	37	0
38	38	38	100	38	38	0
39	39	39	100	39	39	0
40	40	40	100	40	40	0
41	41	41	100	41	41	0
42	42	42	100	42	42	0
43	43	43	100	43	43	0
44	44	44	100	44	44	0
45	45	45	100	45	45	0
46	46	46	100	46	46	0
47	47	47	100	47	47	0
48	48	48	100	48	48	0
49	49	49	100	49	49	0
50	50	50	100	50	50	0
51	51	51	100	51	51	0
52	52	52	100	52	52	0
53	53	53	100	53	53	0
54	54	54	100	54	54	0
55	55	55	100	55	55	0
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94	94	94	100	94	94	0
95	95	95	100	95	95	0
96	96	96	100	96	96	0
97	97	97	100	97	97	0
98	98	98	100	98	98	0
99	99	99	100	99	99	0
100	100	100	100	100	100	0

[illegible]

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32 BCE	2.64	7.8	27	3239	354	244	347
33 BET ADR	0.19	2.4	23	203			
34 BILCO	0.20	5.3	5	120	34	39	37
37 Baker Fort	0.48	2.1	188	19	167	187	
38 Baker High	0.41	5.1	70	4858	224	214	
39 Baker Dis	0.40	1.52	237	27	274	274	
204 Ball Corp	1.24	4.6	14	2441	27	229	
3 Tally Mfg				122	1100	10	54
253 Dallas GSE	1.48	5.7	13	907	293		
254 Ball Shoco	0.60	4.6	15	821	13	124	126
36 Rums Co	1.24	3.1	14	7777	415	384	384
115 Benefield				0	320	213	213
200 Benefield V	1.17	4.2	9	283	243	213	213
252 Benefield Corp	0.66	9.7	7	181	143	143	143
40 Scriptural	1.36	3.2	10	589	425	43	425
114 Script-Tecno				40	114	17	17
444 Serning Inc	0.85	1.2	10	131	54	53	53
145 Bark/Verica	1.40	9.3	8	81268	44	424	414
31 Basci Steel	5.58	6.2	4		4	405	405
204 Bank Bndts	0.40	1.1	19	2068	24	234	234
31 Bk Bndts P	3.04	6.5	18		48	464	464
204 Bank New Y	1.80	3.3	10	3050	35	34	34
34 Bank/Am	3.25	6.8	25	467	467	467	467
70 Bank/Am	6.50	6.8	3		81	605	594
253 Bank/Am Y	3.12	3.9	298	805	79	734	734
254 Bank/Am ADR	6.97	2.9	88	15	34	334	334
255 Bank/Am (C)	0.56	2.3	30	3072	263	246	246
256 Barnes Corp	1.40	4.4	32	2	202	203	202
40 Barnes Dis	1.44	3.3	16	2898	87	87	87
254 Barnes	0.20	2.3	23	4174	91	64	64
41 Bette Inc	0.05	0.5	36	4681	94		
43 Berman Lmb	0.85	1.7	18	1438	28	28	28
20 Bester	1.00	4.4	12	1558	234	224	224
24 Bay St Dis	1.42	4.7	16	56	354	304	304
25 Bay St (C)	1.72	7.8	7.8		24	22	22
15 Bay Shore	0.60	2.7	8	3844	224	214	
41 Bay Shore P	7.75	3.5	5		40	40	40
253 Bayshore	0.84	2.4	19	38	284	284	284
254 Bayshore	0.38	1.4	18	587	274	264	264
255 Bayshore Dis	0.86	1.7	13	685	384	374	374

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154 155 156 157 158 159 160 161 162 163 164 165 166 167 168 169 170 171 172 173 174 175 176 177 178 179 180 181 182 183 184 185 186 187 188 189 190 191 192 193 194 195 196 197 198 199 200 201 202 203 204 205 206 207 208 209 210 211 212 213 214 215 216 217 218 219 220 221 222 223 224 225 226 227 228 229 230 231 232 233 234 235 236 237 238 239 240 241 242 243 244 245 246 247 248 249 250 251 252 253 254 255 256 257 258 259 260 261 262 263 264 265 266 267 268 269 270 271 272 273 274 275 276 277 278 279 280 281 282 283 284 285 286 287 288 289 290 291 292 293 294 295 296 297 298 299 300 301 302 303 304 305 306 307 308 309 310 311 312 313 314 315 316 317 318 319 320 321 322 323 324 325 326 327 328 329 330 331 332 333 334 335 336 337 338 339 340 341 342 343 344 345 346 347 348 349 350 351 352 353 354 355 356 357 358 359 360 361 362 363 364 365 366 367 368 369 370 371 372 373 374 375 376 377 378 379 380 381 382 383 384 385 386 387 388 389 390 391 392 393 394 395 396 397 398 399 400 401 402 403 404 405 406 407 408 409 410 411 412 413 414 415 416 417 418 419 420 421 422 423 424 425 426 427 428 429 430 431 432 433 434 435 436 437 438 439 440 441 442 443 444 445 446 447 448 449 450 451 452 453 454 455 456 457 458 459 460 461 462 463 464 465 466 467 468 469 470 471 472 473 474 475 476 477 478 479 480 481 482 483 484 485 486 487 488 489 490 491 492 493 494 495 496 497 498 499 500 501 502 503 504 505 506 507 508 509 510 511 512 513 514 515 516 517 518 519 520 521 522 523 524 525 526 527 528 529 530 531 532 533 534 535 536 537 538 539 540 541 542 543 544 545 546 547 548 549 550 551 552 553 554 555 556 557 558 559 560 561 562 563 564 565 566 567 568 569 570 571 572 573 574 575 576 577 578 579 580 581 582 583 584 585 586 587 588 589 590 591 592 593 594 595 596 597 598 599 600 601 602 603 604 605 606 607 608 609 610 611 612 613 614 615 616 617 618 619 620 621 622 623 624 625 626 627 628 629 630 631 632 633 634 635 636 637 638 639 640 641 642 643 644 645 646 647 648 649 650 651 652 653 654 655 656 657 658 659 660 661 662 663 664 665 666 667 668 669 670 671 672 673 674 675 676 677 678 679 680 681 682 683 684 685 686 687 688 689 690 691 692 693 694 695 696 697 698 699 700 701 702 703 704 705 706 707 708 709 710 711 712 713 714 715 716 717 718 719 720 721 722 723 724 725 726 727 728 729 730 731 732 733 734 735 736 737 738 739 740 741 742 743 744 745 746 747 748 749 750 751 752 753 754 755 756 757 758 759 760 761 762 763 764 765 766 767 768 769 770 771 772 773 774 775 776 777 778 779 780 781 782 783 784 785 786 787 788 789 790 791 792 793 794 795 796 797 798 799 800 801 802 803 804 805 806 807 808 809 810 811 812 813 814 815 816 817 818 819 820 821 822 823 824 825 826 827 828 829 830 831 832 833 834 835 836 837 838 839 840 841 842 843 844 845 846 847 848 849 850 851 852 853 854 855 856 857 858 859 860 861 862 863 864 865 866 867 868 869 870 871 872 873 874 875 876 877 878 879 880 881 882 883 884 885 886 887 888 889 890 891 892 893 894 895 896 897 898 899 900 901 902 903 904 905 906 907 908 909 910 911 912 913 914 915 916 917 918 919 920 921 922 923 924 925 926 927 928 929 930 931 932 933 934 935 936 937 938 939 940 941 942 943 944 945 946 947 948 949 950 951 952 953 954 955 956 957 958 959 960 961 962 963 964 965 966 967 968 969 970 971 972 973 974 975 976 977 978 979 980 981 982 983 984 985 986 987 988 989 990 991 992 993 994 995 996 997 998 999 1000

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FAMES

FINANCIAL TIMES

Warrior battle ends with something for everyone

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10/10/1964

1. *Phragmites australis* (Cav.) Trin. ex Steud.

Figure 1. The effect of the concentration of the *Agrobacterium* suspension on the transformation efficiency of *Agrobacterium* strains. The concentration of the *Agrobacterium* suspension was 10⁶ cells/ml (○), 10⁷ cells/ml (□), 10⁸ cells/ml (△), 10⁹ cells/ml (◇), and 10¹⁰ cells/ml (×). The error bars represent the standard deviation of three independent experiments.

...the fact that the *in vitro* and *in vivo* results are in good agreement.

the 1990s, the number of people in the world who are under 15 years of age is expected to increase from 1.1 billion to 1.5 billion. The number of people aged 65 and over is expected to increase from 250 million to 450 million. The number of people aged 15 and over is expected to increase from 3.5 billion to 4.5 billion. The number of people aged 15 and over is expected to increase from 3.5 billion to 4.5 billion. The number of people aged 15 and over is expected to increase from 3.5 billion to 4.5 billion.

...and the fact that the *Journal* is a journal of the American Psychological Association, the largest and most influential organization in the field of psychology, adds to the journal's prestige and makes it a must-read for all psychologists.

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MONDAY INTERVIEW

Discreet man of steel

Karel Van Miert, EC competition commissioner, talks to Andrew Hill

European Community competition policy seems to have gone quiet since Mr Karel Van Miert took over from Sir Leon Brittan as EC competition commissioner in January. Mr Van Miert has taken fewer high-profile decisions than his predecessor, delivered fewer speeches and had no "rows" with his industry counterpart, Mr Martin Bangemann, who last year merrily lambasted competition hardliners as over-legalistic "ayatollahs and gurus".

The difference is due partly to a dearth of important competition cases, but mainly to a clear change in style. Mr Van Miert, affable former chairman of the Flemish Socialist party, is no ayatollah - nor, however, has he turned out to be as pliable as Europe's more interventionist governments perhaps hoped he would be.

That should be little surprise to those who know Mr Van Miert. As commissioner responsible for transport, Mr Van Miert helped cajole governments and flag-carrying airlines into far-reaching liberalisation of air transport last year. But now, 10 months into his job, his discreet approach faces some of its biggest tests. He has just returned from a trip to the US and departs for Japan at the beginning of next month with the aim of challenging some of its deep-rooted restrictive business practices. Before then, he hopes finally to persuade some of Europe's largest publicly owned steelmakers to agree the capacity cuts and reductions in state aid that will allow a restructuring of the EC industry to go ahead.

Under such circumstances - with the European economy squeezed by recession and lagging behind its competitors - Mr Van Miert, 51, believes the question of whether he is strict or relaxed about competition policy is irrelevant. "It's not a matter of soft-line or hard-line," he says. "The question is: how can you balance and combine the legalistic approach [to competition policy] with what's happening in the real world."

As he moves out of the shadow of Sir Leon, Mr Van Miert has begun to answer that question. In speeches during his US visit earlier this month, he argued that recession and the increasing openness of world trade should change the way in which the Commission

examines competition cases. In particular, Mr Van Miert is convinced the potential for job creation ought to be a factor when deciding whether or not to clear deals hovering between assent and prohibition.

This would appear to reawaken the fears of competition lawyers, among others, that Mr Van Miert might start to blur what they saw as a consistent and orthodox line pursued by Sir Leon.

But Mr Van Miert says competition policy cannot stand on its own, even if it remains the principal criterion in Commission decisions. Competition policy is the motor of economic growth - but it is useless unless, as he puts it, the "body-work" is also kept in good condition. "My responsibility is to look after the motor in the first place, but not forgetting that it's part of an overall structure," he says.

By taking into account employment prospects the Commission is only responding to acute concern about the EC's growing unemployment rate, which is bound to figure in debate between EC leaders at this Friday's special summit in Brussels. "It's hard to see how a society can survive with unemployment of 15 per cent or more," Mr Van Miert points out. (The average EC unemployment rate is 12 per cent.) "You can't just look at your competition textbook and say: 'That has to be No. and that's it.' You need to take into account the real situation."

Mr Van Miert's other concern is that competition policy should adequately reflect changes in the market for certain products. The Commission used to examine the effect on competition in national markets or the European market, but increasingly the world market is a more appropriate reference, particularly for electronics products. "There are no ready-made solutions," he says. As an example, the commissioner cites the approval he gave earlier this year to a joint venture between Philips of the Netherlands, and Thomson and Sagem of France to produce liquid crystal display screens. They were the only producers in the EC, but competition on the world market is so intense that the Commission decided it could allow them to co-operate in the research, development and production of LCD screens for strategic reasons.



'The last centimetres are the most difficult'

Internationally, Mr Van Miert is keen to promote a three-stage process for removing the remaining barriers to free competition. First, he says a level playing field must be created. For the EC, that would mean protecting EC airlines and telecoms companies, for example, until they were strong enough to face their US counterparts - "who grew strong on the back of the highest, best protected market in

nese next month, building on what he claims is a new readiness by the Japanese authorities to tackle collusion between Japanese companies. "We should tell them now: 'Really, enough is enough,'" he says.

Finally, and most ambitiously, Mr Van Miert - who was briefly environment commissioner last year - would like to prevent companies exploiting some countries' inferior environmental or social standards, by imposing minimum international rules in these sensitive policy areas.

Such environmental and social concerns have rarely been voiced with such passion by an EC competition commissioner. But Mr Van Miert says that the broad thrust of EC competition policy has not really changed since the days of Sir Leon.

In fact, in spite of his more aggressive profile, Sir Leon's approach was not always as strict as his most zealous fans would like to make out. Several of the decisions cited by Mr Van Miert as examples of Commission flexibility on job creation and markets were taken by his predecessor. Moreover, Mr Van Miert has proved himself capable of using the textbook - particularly against the public sector - when necessary.

He has demonstrated genuine toughness in regulating state aid, notably to the ailing steel sector. This was the part of his job which he believed would be most challenging.

Mr Van Miert insists on restricting state subsidies to some of Europe's largest publicly owned steel companies. He has banned subsidised construction of new capacity, and insisted on closures and job cuts in exchange for approval of existing state aid.

In doing so, Mr Van Miert

has faced down the Spanish government, which has agreed to cut capacity in the sensitive Basque region of the country, and is trying to manoeuvre the Italian and German authorities into a deal on their restructuring plans.

Mr Van Miert hopes to table proposals for limiting state aid at a crucial meeting of EC industry ministers next month. To persuade them to approve the Commission proposals, he will warn ministers of what is likely to happen if they fail to take a decision. If capacity cuts are not made, he says, and state subsidies are not reduced, then recent modest price rises will be wiped out, and a potentially crippling race for state aid could ensue.

"I'm rather optimistic," says Mr Van Miert. "The situation in the sector is such that I think companies and governments will go for a deal. We're near to the end. We're centimetres are always the most difficult."

A moral realist speaks out



MICHAEL PROWSE on AMERICA

A gruesome front page story in the Los Angeles Times last week related how inner-city violence was spreading to traditional safe havens such as sedate Orange County. A gang had provoked outrage in a tranquil suburb by ramming a metal rod through the head of a youngster. The victim was not expected to regain consciousness.

The story made a fitting backdrop for an interview I had arranged with Mr James Wilson of the University of California at Los Angeles. Mr Wilson, an avuncular intellectual, represents the opposite, civilised pole of US society. The only kind of weapon you can imagine him wielding is a phrase from Aristotle. But his remarkable new book, *The Moral Sense*, throws light on modern social problems.

His goal is to demolish one of the most entrenched myths of the 20th century: the belief that there is no scientific or logical foundation for morality. Enlightenment thinkers such as Francis Hutcheson, David Hume and, above all, Adam Smith, who was "the pre-eminent moral philosopher of his age", the book's arresting title is a trifle misleading in practice. Mr Wilson is not prepared to follow Hutcheson in arguing for a moral sense on a par with sight or hearing. Instead he follows Hume and Smith in defining it as "an intuitive or directly felt belief about how one ought to act when one is free to act voluntarily".

Mr Wilson advances the arguments of Smith and others by showing that empirical science in the past two centuries has confirmed rather than refuted their belief that man is an intrinsically moral creature, with an innate sympathy for his fellows. Thus he cites a classic study showing that a lone bystander is more likely to help somebody in trouble than a group of bystanders.

This undermines the argument that altruism is really a self-regarding attempt to gain the approval of others. He cites research showing that young children spontaneously

develop a concept of fairness and seek to share their possessions without the prompting or even knowledge of adults. And he argues that the willingness of prisoners of war to endure torture, even when hope of escape is remote, implies the existence of an inner "voice of conscience".

In Mr Wilson's view, these moral predispositions are universal in nature. Anthropologists are right to argue that different cultures have different moral rules, but wrong to infer big underlying differences in moral values. Different moral rules, he claims, mainly reflect differences in circumstances. A truly virtuous man will be recognised as such everywhere. The claim that morals have no validity outside of a given culture is thus bunk.

But if the moral sense is innate and universal, how could intellectual fashions have contributed to violence in Los Angeles and other American cities? The answer lies in evidence cited by Mr Wilson suggesting that moral development is linked to the quality of relationships formed in childhood. A study of the people who risked their lives to help victims of the Holocaust in the second world war, for example, shows that they were disproportionately from close-knit families; sympathy for strangers, it seems, is a by-product of sympathy for one's kin.

Moral relativism and the associated view that lifestyles should be chosen as freely as flavours of ice-cream has thus contributed to moral decay by creating environments in which children are not properly nurtured. Mr Wilson concludes that the collapse of the traditional family in recent decades (a majority of American children are now expected to spend some of their formative years in single-parent households) is "at the core of our social problems". Sceptics should read the book before airily dismissing this still unfashionable conclusion.

*Published by the Free Press, New York. \$22.95.

PERSONAL FILE

1942 Born Oud-Turnhout, Belgium. Graduate in diplomatic sciences, Ghent University. Lecturer at Brussels Free University.

1977 Chief of cabinet for Belgian minister for economic affairs.

1978-88 Chairman, Flemish Socialist party.

1979-85 Member of the European parliament.

1985-88 Member of the Belgian parliament.

1989-92 Member, European Commission for transport, credit and investments, consumer policy and (1992) environment.

1993- Vice-president of the Commission, competition and personnel.

the world" - on equal terms. Otherwise, he says, "it would be like starting a boxing match between a heavyweight and a featherweight".

For the second stage, Mr Van Miert would take up an idea first mooted by Sir Leon 18 months ago: to challenge restrictive business practices worldwide, such as cartels, by setting minimum competition rules, enforced through the dispute settlement procedure of the General Agreement on Tariffs and Trade. This is one topic which Mr Van Miert hopes to discuss with the Japa-

A parting of the ways

When people tell us that the European Community is in a bad way, they usually recite the standard list of symptoms: the disarray of the exchange rate mechanism, the failure to stop the war in Bosnia, the decline in voter support for the Maastricht treaty.

There is, however, a much larger and more difficult structural problem facing the Community than any of these transitional phenomena: as a result of the end of the cold war the member states must rethink the nature of the Community - its size, its purpose, its essential character.

The Community's nature is bound to change through wholesale enlargement. There is now a throng of countries, in Europe and on its periphery, that wants to join the Community. Four members of the European Free Trade Association are negotiating now, and could join the Community by 1995. The east Europeans do not yet qualify, but the 12 have already, in effect, conceded that, if the east European states continue with democratic and economic reform, their applications cannot be rejected nor long delayed.

Within a measurable time-frame, therefore, the Community could include most of Europe up to the Russian frontier, including some countries in the Balkans, plus at least a few in the Mediterranean, with a total membership of 25 or more.

Expansion on such a scale, taking in countries with radically different economies, cultures and recent histories, is obviously not like adding



IAN DAVIDSON on EUROPE

places to a string of dominoes. Such enlargement cannot fail to change the internal character of the group; more important, it cannot fail to change its geo-political significance.

The cold war is certainly over, but we have no grounds for making optimistic assumptions about the future course of events in Russia. One reason the east Europeans want to join the Community is that they are pessimistic about Russia, and they have experience on their side.

If the Community extends to the Russian frontier, the implementation of a common foreign and defence policy will not be a dilettante hobby, as in the Maastricht treaty; it will be an absolute necessity. Do the 12 member governments underline this fact, when they blandly concede the notion of future membership for east Europe? They do not. This is just another of those dangerous truths about the choices facing the Community, about which politicians prefer to keep quiet.

Yet it is obvious that wholesale enlargement will require the Community to redefine its place, its size, its objectives, its

constitution. In particular, it will have to redefine its relationship with Russia and the former Soviet Union; and partly as a result, it must redefine its relationship with the US.

Paradoxically, it is the American relationship which is the more pressing geo-strategic dilemma. For 50 years, the political geography of the world was defined by the east-west confrontation; as a result, Europe's role was largely defined by its alliance with the US. But with the collapse of the Soviet Union, the role of the Atlantic alliance is in doubt.

Working out a new transatlantic *modus vivendi* for the new era must obviously be a two-sided affair. This is what makes the erratic foreign policy gyrations of the US administration so disconcerting for west Europe. In several crises - Somalia, Bosnia and Haiti - the administration does not seem to know what it is doing. But behind the accusations of incompetence, there is the more serious worry that, in spite of his claims to the contrary, the US president is giving a generally lower priority to foreign policy - which, when it comes to peace-keeping, is apparently what Congress wants.

The most immediate problem for the transatlantic alliance is how to keep NATO alive. Since 1989 the allies have tried to inject life into NATO by adopting a new peace-time strategy. But its credibility as a defensive military alliance is bound to be uncertain, in the absence of an acknowledged enemy. NATO's dilemma is parallel to that of the Community: what

does it say to the countries in east Europe which want to join?

In Germany last week, at a two-day meeting of NATO defence ministers, Mr Les Aspin, US defence secretary, gave a two-tone answer: on Wednesday he said no membership and no security guarantees, but perhaps some bilateral co-operation agreements. But on Thursday he said membership may be offered to those which qualify.

The US clearly has not made up its mind. The heart of NATO membership is the US nuclear guarantee to all European members. Yet it is hard to see why the US Senate should ever agree to extend this guarantee to new members at a time when Washington is reducing its military presence in Europe. And the more the countries of east Europe appear in real need of such a guarantee (against instability in Russia), the less the US will want to provide it.

Some NATO members, such as Britain and France, would prefer to prevent enlargement, for fear it could involve a weakening of the US guarantee to west Europe. Yet the exclusion of east European countries from NATO would raise serious questions about the consequences of their admission to the Community.

It would be difficult to reconcile European defence with NATO defence if the two organisations had different memberships. The significance of the Community's probable expansion into east Europe, therefore, is that it could mark the beginning of a parting of the ways between Europe and the US.

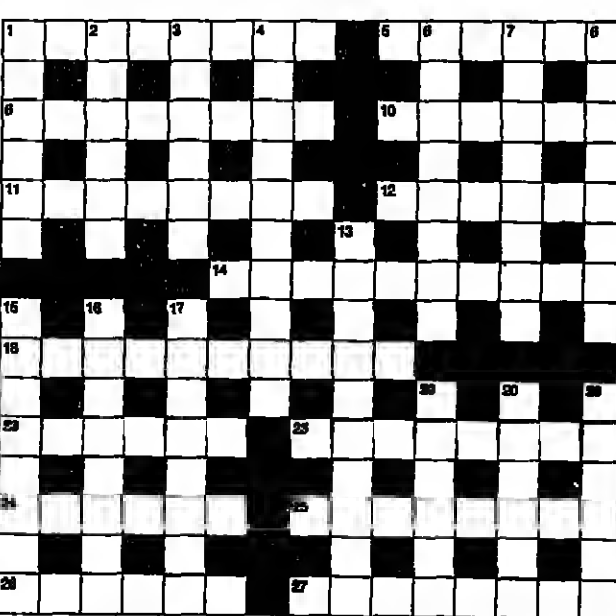
Of broking and jobbing the Pelikan's fond,
See how sweetly he puts your word onto bond.

Pelikan



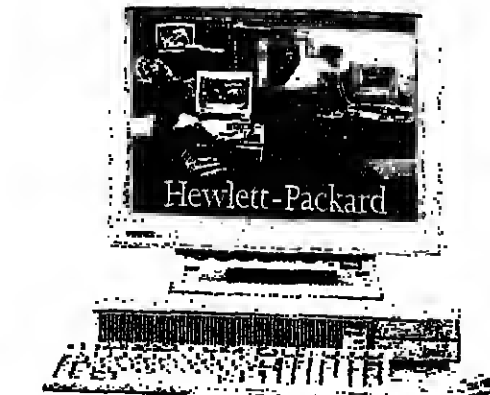
CROSSWORD

No.8,288 Set by PROTEUS



- ACROSS**
- 1 Bird that signifies a death? (3)
 - 5 What gambler is said to lay out on food? (5)
 - 9 Muse about all come across in unusual place? (8)
 - 10 Desert lady to some extent? (6)
 - 11 Hit man in Wales? (5)
 - 12 They may be prickly and loom on board ship? (5)
 - 14 Consider well, being cautious? (10)
 - 18 Make application to receive a periodical payment seemingly? (10)
 - 22 Toy with food? (5)
 - 23 Bird demolishing corn etc? (8)
 - 24 Condition set perhaps at start of examination? (5)
 - 25 Beaten when hard up? (5)
 - 26 Hotbed in business organisation wanting to push forward? (5)
 - 27 Sticking at this point in modern book? (3)
- DOWN**
- 1 Fastening known to bend? (5)
 - 2 Blazing like footballers upset at poor meal? (6)
 - 3 Is rake fit to be an emperor? (5)
 - 4 Map ordered by oriental in French town with lots of money? (5,5)
 - 6 Trilled round looking for pies cooked in traditional style? (8)
 - 7 At that time a Scotsman going round as a Greek citizen? (8)
 - 8 Underlined the importance of having an accent? (5)
 - 13 Put out of joint in the underworld? (10)
 - 15 Most unpleasant wine found in the home? (5)
 - 16 Kind of group that gets under one's skin? (5)
 - 17 Talks idly about the Spanish churchmen? (8)
 - 19 English drink served up at feast? (5)
 - 20 Pasturing on to main element? (5)
 - 21 Believe in sale on trust? (5)

The solution to last Saturday's prize puzzle will be published with names of winners on Saturday November 6.



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GERMANY

Monday October 25 1993

Population implosion: there are more older Germans and births are slowing PAGE 2

Polluters in revolt: heavy industry says environmental rules go too far PAGE 9

Chancellor Kohl has told Germans to tighten their belts and stop acting as if Germany were "a leisure park". His warning reflects a mood of national introspection as reunited Germany reviews its place in an increasingly uncertain world. Quentin Peel reports

The need to tighten belts

THE slogan of the hour is Standort Deutschland. It does not translate easily.

Literally, it means Germany as an investment location. But it also begs questions about Germany's international competitiveness and its social make-up - education, culture, social welfare, and population trends.

All these are under the microscope in the great debate on Standort Deutschland launched by Chancellor Helmut Kohl and his economics minister, Mr Günter Rexrodt, with their report on "safeguarding Germany's future as an industrial location".

It is a rumbling debate which has been worrying German political and economic analysts, for 10 years or more. It has suddenly hit the headlines with the simultaneous advent of German unification, the European single market, upheaval and instability in eastern Europe, and the sharp increase in industrial competition from the Far East.

The question is whether the doubts about German competitiveness represent another bout of typical German soul-searching, inspired by a sharp but temporary downturn in the economy, or whether they are a recognition of more profound problems.

"Almost all our present problems are structural problems of

the old federal republic," Mr Kohl said in Berlin last month. "We would have to solve them even if German unification had not happened. We are not in a traditional recession. But tough times can make new thinking easier. German unity is in that sense a great opportunity for new thinking."

There are gloom-laden headlines in the media. Der Spiegel magazine proclaims Germany's imminent relegation to the second division of manufacturing nations and its population sinking under the burden of an inexorably expanding social state.

There are few if any visible signs of such doom. In spite of the huge costs of unification, and the sharpest recession since the war, Germany is overwhelmingly prosperous.

The problem for Germany is in steering a sensible middle course between incorrigible self-satisfaction and profound self-doubt. "The sensible question about Germany's attractiveness as a business location is not why Germany has fallen behind, but whether changes are afoot that could relegate it from its high-level position and cause a lasting deterioration in productivity and growth trends," says Mr Michael Heise, secretary general of the government's council of economic experts - the so-called five wise men.

In spite of the fact that the

debate has been launched by the government and the business community, there is wide acceptance on the other side of the house - in the trade union movement and the opposition Social Democratic Party (SPD) - that it is a debate which is needed. They only disagree on the analysis.

The government's view, in the Rexrodt report, is fuelled primarily by a liberal, employer's-eye concern at high costs and the inflexibility of labour, compounded by worries over the soaring costs of the social state.

The trade unions, and a growing number of independent analysts, stress instead their concern over the slow pace of innovation, lack of investment in high technology, and the inflexibility of management thinking.

"The structural problems lie deeper than high costs," says Mr Walter Riester, newly-elected deputy leader of IG Metall, the giant engineering workers' union. "We have the wrong products."

Mr Kohl himself is calling for all the sectors in the German economy to tighten their belts, from central government, through the federal states and local councils to the private sector. He also wants something called "umdenken" - new thinking.

"Just a few kilometres east of Berlin and Munich, serious new competitors are growing up, with great cost advantages and increasingly impressive products," he says. "Yet we allow ourselves the luxury of being a country with ever younger pensioners [average retirement age 59] and ever older students [average matriculation age 30]. With ever shorter working hours, rising wage costs, and ever longer holidays, our competitiveness is in danger."

The simple fact is that a successful industrial nation cannot allow itself to be organised like a collective leisure park.

The questions he is raising do not simply concern the quality and duration of education, the need to cap social spending with an ageing population in which one in three



people will be over 60 by the year 2030, and the need for more flexible working hours and labour mobility.

German unification has to be made to work rapidly if the annual drain of at least DM150bn in resources from west to east is to cease putting an intolerable strain on the exchequer. The proportion of taxation and social insurance contributions in the national income is expected to reach 52 per cent this year.

"It was always obvious that

unification would lead to an extraordinary demand for taxation and social contributions," says Mr Gert Haller, the new state secretary in the Finance Ministry. "As soon as possible, we must offer the prospect of this tax burden coming down."

How long it will take for east Germany to achieve self-sustaining growth is the great unknown factor. In the meantime, there can be no let-up in the belt-tightening in the west. Tackling the inflexibility - whether in working hours or

energy supply - requires political decision-making, which is one commodity in desperately short supply. Political debate in Germany is eternal, as the parties, the federal government and the 16 states, negotiate interminably to reach a consensus.

The lack of decisions is a certain factor behind a growing political disaffection in the population at large, demonstrated by rising support for protest parties in the polls. And next year, Germany faces

no fewer than 19 separate elections.

The great concern is that the dissatisfaction with the entire political establishment will see a rise of the far-right wing parties, such as the Republicans. So far it has been expressed more in non-voting, in support for protest parties of the left, such as the Greens, or in votes for local interest groups. The most dangerous moment for Mr Kohl is in next year's European elections in June, when voters feel least constrained by traditional loyalties. When it comes to the national poll in October, the chancellor is adamant that the Republicans will fail to get the five per cent they need for seats in the Bundestag.

Domestic issues seem certain to dominate and decide those polls: jobs, law and order, housing and immigration are all key concerns. Mr Kohl remains totally committed to the process of European integration, but he wins little applause on the issue, even from his party faithful. The worry that the mighty D-Mark may be replaced by a less stable European currency in 1999 is certainly no vote-winner, and the far right parties are exploiting that concern for all they are worth.

And yet for all the doubts and fears, the fundamental nature of the current debate is seen by most as positive.

"I think it will work out as an advantage that we are publicly debating our shortcomings," says Mr Horst Köhler, chief executive of the German savings banks' association, and Mr Haller's predecessor as financial state secretary. "I think we will be able to make some corrections. We have not yet gone far enough. A lot of things need to be corrected in the direction of more flexibility. I am convinced we have a problem with German self-confidence. It is not very strong. In Standort Deutschland, we list all our shortcomings, and then people think: 'poor Germany'."

"But the basic structure of our economy is better placed than many, especially with the high proportion of small businesses. The financial sector is

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Maurice Samuelson	
Design: Robin Coles	
Graphics: Bob Hutchison	

a major source of strength. It is decentralised, stable and sound. It is not in our interest to be at the leading edge of financial innovation.

"We should encourage more transparency, and we need more competition. We are too inflexible with regard to hierarchies. We need to organise society so that everybody has the feeling of participation, of injecting ideas and creativity into concrete projects. That is the challenge, not simply cutting costs."

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BRIMER VULKAN VERBUND

GERMANY 2

Economists are confused, says Christopher Parkes

Fickle barometers

AFTER getting it so wrong last time, the myriad analysts of the western German economy are demonstrating admirable caution – and confusing diversity – in their preliminary forecasts for 1994. The range extends from a further decline of around 0.5 per cent in gross domestic product to growth of 1 per cent.

Most optimists base their expectations on a steady mix of reviving demand in European Community markets, low pay awards, and faith in government promises to screw down public spending which, in turn, will encourage the Bundesbank to screw down short-term interest rates.

The pessimists point to fading domestic demand, stubborn inflation, the difficulties of persuading unions to accept further real income cuts and the effects on export prospects of a strong D-Mark.

Since private sector analysts still cannot agree on the outcome for the economy in the current year (although most have more than doubled their early forecasts to a drop in output of more than 2 per cent) the degree of variance is hardly surprising. The recession, by common consent, has been the worst since the war, and to some extent the path out of the slump is unknown.

The statistics do not offer much of a clear pointer, though the picture they have given of performance over the past year is bleak enough. For four consecutive quarters – from the second quarter of 1992 until the first quarter of 1993 – west Germany's gross domestic product was actually shrinking, reaching its most negative rate of minus 1.5 per cent at the beginning of the year. Perhaps thanks to that particularly sharp downturn, it showed a 0.5 per cent recovery in the second quarter, and the question is now whether that does indeed mark a bottoming out of the recession.

Industrial orders in the west have shown conflicting signals: up 2.9 per cent in May, down by 1.6 per cent in June, up again by 2.3 per cent in July, and down a provisional 2.0 per cent in August, according to the Bundesbank. West German industrial production, on the



other hand, showed a 2.2 per cent recovery in August, after two consecutive months of slight decline. The economics ministry in Bonn firmly believes that the worst is over, citing a very gradual improvement also in the mood of the business community.

Inflation looks set to ease gradually, after a peak of 4.3 per cent in the cost of living index in the first quarter, reached again in July. It was down to 4.2 per cent in August and 4.0 per cent in September. In east Germany, it was again looking steady at around 8.9 per cent, reflecting the continuing adjustment of low administered prices in the old state system.

As for the unemployment outlook, that is still unequivocally bleak: seasonally adjusted unemployment has increased steadily throughout the year in the west, from just under 2m at the turn of the year to 2.38m in September, a rate of 7.7 per cent. In east Germany, it is sticking at around 15.2 per cent, or around 1.6m workers. Forecasts suggest continuing lay-offs through 1994, leading to a possible jobsless total of 4m by the end of the year.

That all this translates into a structural crisis in which the German economy has lost its attraction as an investment location is not universally accepted. According to the local branch of the Arthur D. Little consultancy, the Standort Deutschland debate is too introverted and tends to ignore external views. A poll of 50

senior foreign executives discovered 76 per cent saying "yes" immediately when asked if they would invest in Germany.

While those questioned readily listed the familiar disincentives of high labour costs and taxes, bureaucracy and economic and political uncertainty, they had no doubts about the attractions: the size and wealth of the German market; proximity to eastern Europe; qualified, motivated workers; infrastructure, and a stable legal framework.

Nevertheless, there is no mistaking the new sense of realism that is abroad, in both public and private sectors.

Economists expect overall industrial and public sector pay awards for 1994 to equal or even undercut the expected inflation rate, thus taking another twist out of the inflationary spiral. They are less sure about the politicians' efforts, especially since Germany will spend much of next year in a frenzy of state and local elections, ending with the federal polls.

There has already been some progress. New rules on prescriptions and a compulsory freeze on drugs prices, introduced last January, have already saved billions of D-Marks in federal subsidies to the over-loaded statutory health insurance schemes. Bonn has also saved by winking out social security fraudsters and tax dodgers. It plans cuts in unemployment and welfare benefits, but has yet to implement most of them. Even

KEY FACTS		
Area	356,854 sq km	
Population	80.046 million	
President	Dr. Richard von Weizsäcker	
Currency	Deutsche Mark (DM)	
Average exchange rate	1991 \$1=1.6595 DM	
	1992 \$1=1.5617 DM	
ECONOMY		
	1991	1992
Total GDP (\$bn)	1,691.3	1,932.2
Western German GDP (\$bn)	1,578.7	1,781.0
Eastern German GDP (\$bn)	112.5	151.2
Par-German GDP growth (%)	3.1	2.1
East German GDP growth (%)	-14.0	9.7
Components of GDP (%)		
Private consumption	57.4	56.8
Total investment	18.8	20.1
Collective consumption	22.9	23.3
Exports minus imports	-0.2	-0.2
Trade balance (\$bn)	23.96	32.35
Inflation and unemployment		
Inflation rate (%)	1992	Latest
West Germany (%)	4.0	4.2
East Germany (%)	11.1	8.9
Unemployment rate (%)		
West Germany (SA)	8.5	7.2
East Germany (NSA)	14.9	15.3
Unemployment level ('000's)		
West Germany (SA)	1,991	2,212
East Germany (NSA)	1,173	1,148
Germany		
Discount rate (%)	8.25	6.25
10 month interbank rate (%)	8.85	6.72
10 year bond yield (%)	7.19	6.06
Official foreign reserves (\$bn)	68.2	103.9

(1) Inflation rate is 1992 average, Jan-Sept 93 average.
(2) Unemployment 1992 average, Jan-Sept 93 average.
(3) Interest rates at end December 92, end September 93.
(4) Reserves at December 92, August 93.
Sources: Datastream, Eurostat, IMF

if it does, sceptics say, the planned economies seem unlikely to materialise because of the rapid increase in unemployment stemming from industry's rationalisation efforts.

Meanwhile, regional and local authorities, mostly controlled by the Social Democrat opposition, and naturally loath to listen to pleadings from Bonn, have tried to offset their still-rising deficits by cranking up charges for local services such as rubbish collection. Excluding the billions of borrowings by the post office, Deutsche Telekom, railways and the Treuhand privatisation agency, the general government spending deficit this year is expected to reach DM150bn, or 5.5 per cent of GDP, although the proportion is scheduled to fall to 4.5 per cent in 1994. Including the "off-budget" extras, the figure rises to DM230bn. The Bundesbank has made no secret of its concern that it is government borrowing which is driving monetary growth to unacceptable levels. Looming increases in taxes on fuel and insurance will tweak inflation further. Meanwhile, the coalition continues to undermine its own credibility by nibbling round the edges of major structural problems.

One example is the extraordinary debate about how best to pay for care for the elderly and infirm while the entire old-age pensions system threatens to collapse under pressure of the rapidly ageing population.

As Mr Michael Heise of the government's independent council of economic experts has noted, fiscal policy is a determining factor for Germany's attractiveness as a location for business.

Another former strength which has evolved into a weakness is the predominance of family-owned businesses, the so-called "Mittelstand" of small to medium-sized companies which constitutes the backbone of the regional economy. Baden-Württemberg prides itself on being the home of the so-called "Tüftler", the person who refuses to stop trying to solve apparently unsolvable problems. Combine this technical bent with a fierce streak of independence and you have the classic Swabian Mittelstand. (Swabia is the former Württemberg in the eastern part of the state).

Of course Baden-Württemberg is home to some of the giants of German industry – for example Daimler-Benz and Bosch. Less big but just as famous is the Porsche luxury

Regional focus: BADEN-WÜRTTEMBERG

When Daimler is ill

BADEN-WÜRTTEMBERG in the south-west of Germany has traditionally been the Land with the highest income in Germany, the lowest unemployment, the highest innovation and a greater proportion of exports than Germany as a whole.

But Baden-Württemberg's fortunes have turned since the beginning of the German recession in the second half of last year. Far from proving resilient to the downturn, it has turned out to be more vulnerable than the country as a whole. Within a year unemployment has risen from 4.6 to 6.7 per cent and in the first six months of the current year the state's GDP fell by 4 per cent compared with a downturn of 2.6 per cent for western Germany.

This sudden swing reflects the fact that Baden-Württemberg's former strengths have become weaknesses. The Land is dominated by "old" industries such as machine-tool manufacturing, the automobile sector and its suppliers, areas of the economy which are particularly badly hit in the current downturn.

Baden-Württemberg used to export more than the average for western Germany – now its manufacturers are suffering from the double impact of a strong currency and a decline in world demand for investment goods.

Another former strength which has evolved into a weakness is the predominance of family-owned businesses, the so-called "Mittelstand" of small to medium-sized companies which constitutes the backbone of the regional economy. Baden-Württemberg prides itself on being the home of the so-called "Tüftler", the person who refuses to stop trying to solve apparently unsolvable problems. Combine this technical bent with a fierce streak of independence and you have the classic Swabian Mittelstand. (Swabia is the former Württemberg in the eastern part of the state).

Of course Baden-Württemberg is home to some of the giants of German industry – for example Daimler-Benz and Bosch. Less big but just as famous is the Porsche luxury

car company. Even these large and well-known enterprises grew from Mittelstand roots: they were founded by technically-minded entrepreneurs such as Claudius Dornier, Gottlieb Daimler, Carl Benz, Ferdinand Porsche or Robert Bosch – all typical "Tüftler".

The bigger companies have traditionally shared the Mittelstand ethos – "a unique combination of the traditional and the innovative" as researchers from the University of Wales College of Cardiff recently described it (*).

Clustered around Stuttgart, in towns such as Ludwigsburg, Böblingen, Sindelfingen, Esslingen and Göppingen, smaller companies have prospered from supplying their larger neighbours.

But when Daimler sneezes, the state of Baden-Württemberg catches a cold. Grippled by a massive recession in the European car industry, Daimler has more than sneezed – it is suffering from a form of corporate double pneumonia. It has reacted by chopping its workforce (in 1992-94 the group will shed 80,000 jobs) and put-

ting pressure on its suppliers. The prognosis for Mittelstand suppliers to Daimler and to Volkswagen, the other beleaguered giant of the German automobile industry, is bleak. In a recent study, the accountancy firm Price Waterhouse predicts that only 500 out of the 3,000 German components suppliers will survive the current shake-out.

The outlook for the machinery manufacturing sector is hardly brighter. Baden-Württemberg has the largest number of machine-building and tool-making firms, employees and per capita turnover anywhere in Germany, with 43 per cent of the firms based in and around Stuttgart. Orders for the sector are down by 70 per cent from three years ago, reflecting the disappearance of traditional export markets in the former Soviet Union and

elsewhere in eastern Europe as well as world recession and the strength of the D-Mark. The result is that manufacturers are obliged to join forces in order to survive. For example Friedrich Deckel and Maho, two of Germany's best-known machine-tool manufacturers which between them have 40 per cent of the German market in milling and boring machines, have merged outright. Others have embarked on cooperation strategies which bring an end to individual companies' highly-prized independence. This would have been unthinkable even two years ago.

So what does the future hold for Standort Baden-Württemberg? Will it be able to regain its status as a "Musterland" – the model little Land of the local dialect? Or will it sink further into difficulties?

Pessimists point to the region's heavy dependence on old-fashioned manufacturing industry and a comparative lack of service sector businesses. Optimists herald the virtues of the hard-working, highly educated workforce, the adaptability and resilience of the state's entrepreneurs, and the matchless educational and scientific infrastructure (nine universities, 23 polytechnics, three large-scale research facilities, 11 Max Planck Institutes, 14 Fraunhofer Society facilities – and so on).

In Baden-Württemberg as in the rest of Germany, companies have responded to the recession by cutting costs. This is reflected in the climbing unemployment statistics and in the decision of numerous companies – starting with Daimler-Benz itself – to establish cheaper production locations abroad. For all its enviable tradition as a manufacturing centre, Baden-Württemberg will have to fight hard for its future.

*The Future of the Mittelstand: Collaboration versus Competition, by Philip Cooke, Kevin Morgan and Adam Price. A Regional Industrial report from the Department of City & Regional Planning, University of Wales College of Cardiff, PO Box 906, Cardiff CF1 3YN.

David Waller

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A flood of elections will soon engulf the country, says Quentin Peel

Political traffic jam may forge coalition

THE prospect of no fewer than 19 separate elections in Germany next year is enough to strike horror into the heart of the hardest party campaigner. Worse than that, the outcome of the final vote in the "election marathon", the poll for the federal parliament itself, hangs on no more than a couple of percentage points cast for the fringe parties.

The situation could scarcely be less predictable. And the country is suffering from weariness with the political process.

The major parties are already manoeuvring for advantage, and the legislative machine in the national parliament is rapidly running out of steam. By the second half of 1994, when Germany is supposed to take over the rotating presidency of the European Community, the country is going to be totally involved in its own internal politics.

Chancellor Helmut Kohl wants to talk about fundamental questions of Germany's international competitiveness, its need for major structural reforms, its place in Europe, and its international responsibilities. But the recession, taxation, unification costs, and unemployment mean that the agenda will be overwhelmingly domestic and near-term. Moreover, nobody is ready to reach conclusions on those major

There has been a steady drift from traditional political parties

structural questions when a change of government could be coming next autumn.

So much for the downside. For the political analyst, however, next year's plethora of polls will provide a fascinating insight into the shifting allegiances of a united Germany, and some crucial indicators for the future political direction of the country.

One thing is clear: there has been a steady drift from all the traditional political parties, in favour of non-voting (the largest group), the Greens, an assortment of far right-wing parties such as the Republicans, the Democratic Socialist Party (PDS) - the former Communists in eastern Germany - and local interest groups.

In the latest opinion polls, Chancellor Helmut Kohl's Christian Democratic Union (CDU), and its sister party, the Bavaria-based Christian Social



A beggar in Frankfurt, one of Europe's richest cities

would win around 38 per cent, the pollsters say. What is most peculiar is that the opposition is not doing better.

The big question is whether either CDU or SPD can recover enough support over the coming year to put together a "natural" coalition on the left or the right - or whether they will be condemned to form a "grand coalition" together, because of the splintering of the vote to the protest parties.

The Greens, now allied with Bündnis-90, the loose left-wing alliance of democratic parties thrown up in the wake of the east German revolution, are clearly doing best of the protest parties. In the most recent state elections in Hamburg, they almost doubled their vote from 7 to 13.5 per cent, and are negotiating to form a coalition in the state parliament with the SPD. Such a red-green coalition also appears a distinct possibility in the national elections next year, for the Greens are currently supported by at least 10 per cent of voters nationally.

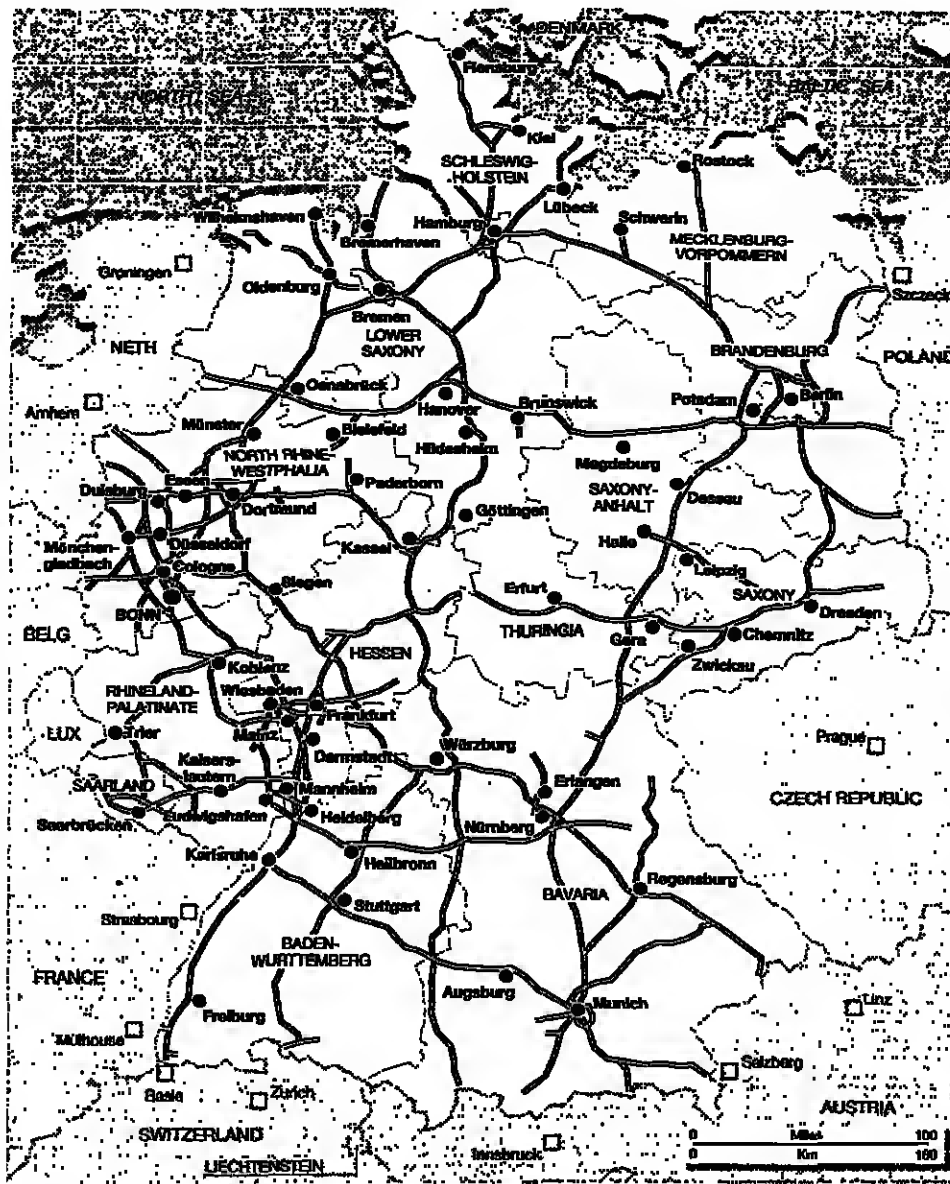
The SPD leadership is torn.

Of the protest parties, the Greens are clearly doing best

Mr Rudolf Scharping, the young and competent, but thus far uninspiring new leader of the party, knows that the issues which will decide the 1994 campaign are parochial, and largely economic: jobs, housing, social benefits, as well as law and order, and immigration. On most of those issues, an alliance with the Greens might be an electoral disadvantage.

Only on popular environmental issues - no longer at the top of the recession-hit political agenda - would an electoral pact obviously help the Social Democrats.

The Free Democrats (FDP), the junior partner in the ruling coalition, and the king-makers in German politics ever since the federal republic began, are as affected by the anti-establishment mood as anyone. In Hamburg, they failed even to gain the 5 per cent necessary



to get into the city parliament. In the national polls, they are bumping along with less than 10 per cent support. If neither they nor the CDU/CSU can improve significantly, the current conservative-liberal coalition is doomed.

The most likely outcome is a grand coalition of CDU/CSU and SPD, just as happened in 1989. Mr Kohl and Mr Scharping are smaller politicians, albeit of different generations. They are men of consensus,

prepared to negotiate - and both come from the same neck of the woods, in the Rhineland-Palatinate. Indeed, Mr Kohl is said to have a sneaking respect for the way his rival, through sheer hard campaigning at the grassroots, managed to displace the Chancellor's own CDU from power in the state in 1991.

Mr Scharping is desperately trying to turn his party into one seen as "capable of government", rather than the squab-

bling collection of teachers and evangelists that it all too often appears to be in opposition. He is seeking to move into the centre ground of German politics, vacated as Mr Kohl moves to the right to head off the Republicans.

Neither wants to talk about a grand coalition. Both deny they want one. But both know they may be condemned to live with one. The key lies with the protest parties.

If the Republicans and the

PDS, to name the two most likely contenders, both just fail to make the 5 per cent cut-off point needed to get into the Bundestag, then it might well be possible to put together a red-green coalition, or a conservative-liberal coalition, with less than 50 per cent of the votes. But if either or both of them do win seats in the Bundestag, then a grand coalition becomes almost inevitable.

The Republicans are no longer picking up significant new support in the polls. They failed to make 5 per cent in Hamburg, by a whisker - mainly because their bitter right-wing rival, the Deutsche Volksunion (DVU), was also running. They have been tarred with the brush of skin-head violence against foreigners, which clearly loses them support, not the contrary.

The PDS is unlikely to win 5 per cent nationally on the basis of its localised eastern support, but it could win three direct mandates to parliament - an alternative route to the Bundestag. Then the party as a whole can claim seats.

Even before the October poll, the main parties will face a gruelling test in the European elections in June. German voters have traditionally used the European poll as a useful chance to let off steam, and vote for the protest groups. So the chances of big votes for the

The state elections could see a backlash against the party in power

far-right and the Greens are much better. Mr Kohl knows that a big pro-Republican vote in June will have a terrible effect on Germany's image abroad, even if voters return to the fold for the state and national elections.

Any or all of the state elections could start a tide running for or against a particular party. Of the seven in prospect, the SPD rules in two, the CDU in four, and the CSU, as always, in Bavaria. The chances are that all will see a backlash against the party in power.

Mr Kohl is relying on his own solid stature, as the one familiar, reassuring father figure, to bring the faithful back to his party, especially at a time of economic recession. Judging by the steady haemorrhage of support he is seeing at the moment, it will be an uphill struggle.

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GERMANY 4

Andrew Gowers on Bonn's foreign policy dilemmas

Tense new world

WHEN a phalanx of steelworkers descended on Bonn to demonstrate against plant closures, they painted their hardhats blue. It was a joke of some sophistication.

As blue is the colour of United Nations military headgear, the workers were making a sarcastic comment on the obsessive, and sometimes arcane, debate in the capital concerning German participation in UN peacekeeping operations. Only if they were blue helmets, they were saying, would Bonn heed them.

That small incident illustrates a wider problem for German politicians as they struggle to define a foreign policy for their newly unified country. With the ending of the division of Europe, Germany is having to contemplate assuming a political role in the world and in Europe more commensurate with its economic might. But its own citizens are more concerned with the bread and butter issues of recession, job losses and immigration. The result, rather than a clarification of foreign policy issues in the public mind, has been continuing confusion.

The good news is that the German political establishment has begun for the first time since the second world war to articulate clear arguments concerning the country's national interests. It is itself a taboo phrase until recently. The difficulty lies in putting these principles coherently into practice. The UN is an important symbol both of the country's need to find a world role beyond the somewhat passive one it was assigned by the victorious allies after the second world war, and of its difficulty in doing so: even as the government pursues its low-key campaign for a permanent seat on the Security Council, it remains politically - some say constitutionally - hamstringed in doing more than taking a small part in peacekeeping in Somalia and Bosnia.

To have sent a contingent of German troops to Africa for the first time since Rommel and to have provided German personnel for Awacs reconnaissance flights over the former Yugoslavia are already big

steps in the direction demanded by Germany's allies. But even those "out of area" gestures remain the subject of a tedious tussle between the coalition partners, the opposition SPD and the constitutional court that illustrates how much further Germany has to go before it will feel comfortable in its new guise.

"Given where we started from, it's quite astonishing how far we've got," says Mr Karl Lamers, foreign affairs spokesman of Chancellor Kohl's CDU who last summer produced a thoughtful paper on German foreign policy interests. "But measured against what we need to do and against our own demands for a common foreign and security policy in the European Community, it's still much too little."

For a variety of reasons, some of them

With rightwingers increasingly wary of the EC, foreign policy could be an electoral issue

ilar ambiguities apply in Germany's approach to other multilateral organisations that are arguably of greater national interest. In Nato, German politicians have to weigh their *Angst* over developments to the east and their desire to maintain and strengthen the transatlantic alliance - a complex balancing act that reflects Germany's pivotal position on the fault line between eastern and western Europe. Instability in the east affects Germany more directly than any other western country: one fruit of that are the hundreds of thousands of asylum-seekers that have flocked across its eastern border since 1989.

The imperative identified by all mainstream politicians as a result is to integrate the eastern countries into western political and economic structures as fast as possible. In Mr Lamers's catchy phrase, "our future does not lie in the east; the future of the east lies in the west". That means principally holding out the prospect of eventual EC membership to Germany's central European

neighbours - though until the violent events in Moscow earlier this month prompted some careful backtracking, there were also voices (notably that of Mr Volker Rühe, defence minister) suggesting these countries should also be brought rapidly under the Nato security umbrella.

In the European Community - cornerstone and central pillar of German policy since the 1960s - the balancing act is becoming harder and more sensitive still. On the one hand, as the Community's strongest member Germany is discovering that it bears heavy political and economic responsibilities towards its neighbours; on the other, its ability to fulfil them is seemingly undercut by the domestic problems which have followed unification.

This is a thorny dilemma - not least for a man of instinctive pro-European convictions such as Mr Kohl - and it is linked to the debate over Standort Deutschland. Unless and until it sorts out its own economy, Germany will not be able to play its full part as the engine of European integration; but if German institutions accord priority to domestic problems - as has the Bundesbank in repeatedly refusing to accelerate interest rate cuts this year - Germany stands accused by its partners of wrecking the game.

Prof Karl Kaiser, head of a leading Bonn foreign policy think tank, says Germany's current difficulties are hampering its effort to come to terms with the international consequences of unification: "We are in the midst of redefining our political role as the leading economy and currency of Europe. But the structural and temporary weaknesses of the economy potentially undercut such an effort."

For Mr Kohl - who warns constantly of the dangers of a "re-nationalisation" of policy-making - and for his foreign minister, the Free Democrat leader Mr Klaus Kinkel, the answer can only be more Europe, not less - a reluctance of the EC now that Germany has been allowed by the constitutional court to ratify the



Father figure: a 14 tonne bronze statue of Kaiser Wilhelm I is installed at Koblenz on the Rhine 48 years after US troops dynamited the original

Maastricht treaty, a continuing push for economic and monetary union, an eventual streamlining of EC institutions.

But in striving for all that, he faces formidable problems. First, there is the relationship with France, which has in the past year suffered greater stress than at any time in the past two decades. From monetary and exchange rate policy to the future of the Uruguay Round multilateral trade negotiations, significant differences of emphasis have emerged between Paris and Bonn.

While these have not fundamentally impaired the Franco-German axis at the heart of the Community, they mean that co-operation has been tinged with mistrust and potential misunderstanding, and Mr Kohl is having to work hard to prevent this from developing into something worse.

On the Gatt trade talks in particular, a damaging row among Community leaders later this year cannot be ruled out - and Mr Kohl will be torn between a desire to accommodate French concern over farm exports and Germany's overwhelming interest in seeing the Uruguay Round completed.

Second, the prospects for Emu itself remain deeply

murky. Behind the exchange rate turbulence of the past year lies a deeper uncertainty as to whether it will ultimately be possible to reconcile Germany's instinctive attachment to monetary stability - and the Bundesbank's statutory duty to uphold it - with its European partners' desire for genuine co-determination in monetary matters. If as the 1999 deadline for phase three of monetary union moves closer that uncertainty is not resolved, the whole project could collapse.

Third, and no less important, Mr Kohl will have to contend with an insistent, and growing, mood of popular scepticism towards aspects of European integration in Germany itself - especially towards the replacement of the D-Mark with a common currency. He badly miscalculated the degree to which Emu would prove acceptable to his own people in the first place, and accepts that the Bundesbank will have the final say on whether phase three will proceed.

With important voices to his right calling for a slowdown in the process, the Chancellor will have to play his cards carefully to prevent the EC, and foreign policy in general, from becoming an electoral issue.

Judy Dempsey looks at east German democracy

Slow awakening

IN eastern Germany, the emergence of new, indigenous political elites has been painfully slow in contrast to the rise of a small entrepreneurial class.

But if eastern Germany is to be politically, psychologically, and socially integrated into the concept of Standort Deutschland - Germany as an investment centre - it will require local political elites in eastern Germany to achieve this.

Throughout the five eastern states, a two-tier system of the organisation of power at the highest level has emerged. With the exception of Mr Manfred Stolpe in Brandenburg, the only Social Democratic prime minister in the region, and Mr Berndt Seite from Mecklenburg-Vorpommern, the prime ministers are all from west Germany.

Admittedly, the premiers are flanked by ministers, many of whom are easterners. However, the state secretaries are westerners. The case can be easily made that the cooperation between easterners and westerners on the state level in eastern Germany has been crucial for politically integrating the country, and for training a new administration.

But it is not as simple as that. Easterners have been wary about becoming involved in politics at the state level because of the past - a past dominated by the Stasi, the state security system.

It was an extraordinarily sophisticated and insidious system. In its final days, as Fritz Stern pointed out in a recent article in the Washington-based *Foreign Affairs*, the Stasi consisted of 97,000 full-time employees, and perhaps as many as 140,000 unofficial collaborators. Moreover, about 2m out of a population of 17m were members of the SED (Socialist Unity, or communist party), thus ensuring some connection - however slight - with the Stasi. The 100 miles of Stasi files are a testament to the system's reach over the society; the system was designed to implicate as many people as possible.

Because of the ubiquity of the Stasi system, an emotional debate has been taking place in Germany about the way the

files have been used. The law opening the files, which went into effect on January 2, 1992, allows government agencies to request background checks on their employees. Thousands have since been dismissed. But precisely because the files are still open, the easterners have been placed in a position where they have been inhibited about speaking out about the process of unification, or about being actively involved in the political process. They are never sure if they will ever be deemed "clean".

For example, every civil servant has to take an oath of loyalty to the constitution. If an easterner is regarded as "clean" in the sense that no incriminating evidence has emerged from the Stasi files, he or she can join the civil service. But the files are not closed. A person is still under suspicion for a further three years - just in case a separate

Easterners hesitate to become involved in state politics because of the shadow of the Stasi files

file implicates them with some connection with the Stasi. The shadow of the past hangs over them. Paradoxically, the new-found freedom has had the bizarre and disturbing effect of silencing them.

The voice which speaks on behalf of the eastern Germans is the voice of the western German official. Yet in a strange way some easterners are perpetuating this unequal relationship by insisting that the files be kept open. Some of the loudest proponents include Mr Stefan Heitmann, the presidential candidate of Chancellor Helmut Kohl's governing Christian Democratic Union party. Yet this entire process is having a debilitating effect on political life in eastern Germany. The eastern Germans have been made to believe that the past 40 years have been worthless.

Prominent west German politicians and intellectuals, including Egon Bahr, the former Social Democratic federal minister, believe "enough is enough" and support an

amnesty for those waiting trial, or already charged. They argue that the constant judging - if not bounding - of a cross section of east German society will not only perpetuate the paralysis of political life in eastern Germany; it will deepen the sense of mistrust between eastern and western Germans. The case of Mr Gerhard Riege, an east German deputy in the federal parliament in Bonn explains why. Mr Riege committed suicide in early 1992 after it had been reported that he had been a Stasi informer during the 1950s.

His death provoked a passionate response from Mr Hermann Scheer, a west German, and Social Democratic party deputy. "We are living through a public witch-hunt that is unworthy of a democratic state. A country that allowed former SA members and Hitler Youth graduates to rise to high government positions has no right to condemn a man like Gerhard Riege because he had contact with the Stasi from the age of 24 to 30."

President Richard von Weizsäcker has frequently added his weight to the debate. "The [Stasi] files always reflect the view of their masters. They do not lie in this, but they are one-sided and must be evaluated. They are not an objective or moral authority."

The elections next year could well convey the sense of disappointment and disorientation among eastern Germans, perhaps through a low turnout and a swing from the established political parties.

The disappointment is caused not just by high unemployment, or failed expectations raised by Chancellor Helmut Kohl when he said in 1990 that eastern Germany would be a "blossoming landscape in a few years", and that "no one would be worse off after unification". It is a sense of powerlessness fuelled by the feeling of imposed change, the loss of the Voice because its words are not believed; the loss of the spontaneity and civic courage which helped to break down the Berlin Wall. If Standort Deutschland is to have any political meaning, it must help break the silence in the east.

Eastward investment: EILENBURG IN SAXONY

Why the Finns came to town

FINLAND'S and Europe's largest paper manufacturer, could have chosen to build its new recycling plant in western Germany, or in another European Community country. Instead, it decided on the eastern German state of Saxony, writes JUDY DEMPSEY.

"We had looked around other states in eastern Germany. The decision was close. In the end, we opted for Eilenburg, a small town near Leipzig," said Mr Jukka Härmälä, the president of Enso-Gutzeit.

Many factors influenced the group's final decision to expand into paper recycling in eastern Germany. It received investment grants of between 15 and 20 per cent for a greenfield site on which it will build a recycling paper mill costing DM900m. And, taking into account tax relief and special depreciation allowances, Gutzeit reckons its investment outlay will be about 55 per cent of the total amount.

But it was not only the financial incentives which brought the Finns to Saxony. "There was the minimum of red tape," explained Mr Karl Vainio, head of communications at Gutzeit. "We started negotiations two years ago in November. One year from now, we will be up and running. This is really fast. We had the maximum of cooperation. None of it was fake. It was a really constructive relationship with the local authorities," he said. The site, which cost about DM10m, was bought not from the Treuhand, the agency charged with privatising and

restructuring eastern German industry, but from the local authorities of Saxony.

This time next year, Gutzeit will be on schedule to produce at Eilenburg 280,000 tonnes of newspaper, primarily from recycled paper and it will employ about 350 people. By 1995, 100 per cent of the operations will be based on recycled paper. The mill will have a capacity of 220,000 tonnes a year.

But while investment incentives and a flexible local administration smoothed Gutzeit's road to Eilenburg, there is little doubt in the mind of Mr Kai Korhonen, managing director of Sachsen Papier, (the name of the plant), about the importance of Saxony's geographical and cultural location. "Think about the traditions of this place," he said.

For well over a century, Saxony, and Leipzig in particular, was one of the great European crossroads. Today, it is two hours drive from Berlin, slightly longer to Prague, and four hours to Munich.

"Look at the market out there," said Mr Härmälä, on the day he laid the foundation stone at Eilenburg under a bot, cloudless day. "The media and newspaper market is growing in western Germany, and especially in eastern Germany. We cannot ignore the growing demand in the countries of eastern Europe. By being here, we will be in a position to capture these markets," he added.

The German market alone accounts for 15 per cent of Gutzeit's net turnover

which last year totalled DM3.2bn. The European Community countries together account for 60 per cent of its net sales. Net sales and total exports world wide account for 80 per cent of the group's annual turnover. "With this profile, it is clear we had to expand into the German market and also use it as a stepping stone into eastern Europe," said Mr Vainio.

Saxony's cultural traditions played an important role for Gutzeit's decision as well. A major publishing centre in the last century, this proud and increasingly self-confident state has retained its traditions and expertise in this field.

There is also an infrastructure in place. Deutsche Telekom, for example, has already invested DM850m in Leipzig alone to support the expanding graphics, book publishing and printing sectors. Gutzeit is not alone in coming to Saxony.

Since late 1990, when the Treuhand embarked on its privatisation programme, the state, led by Mr Kurt Biedenkopf, has attracted DM4.1bn worth of investment commitments and has secured 426,661 jobs through these sales. Of the 3,792 enterprises and property sold by the Treuhand, more than 230 have been bought by foreigners who have invested DM3.7bn in the state, and have guaranteed 30,000 jobs.

Mr Vainio's only comment in explaining the high level of investment in the region was short and to the point. "We believe in Standort Saxony."

Westward investment: KAISERSLAUTERN ON THE RHINE

Setting for an Opel

DAVID HERMAN, chairman of Adam Opel, is not a man to sit quietly and brood about the frustrations and disadvantages of manufacturing in Germany. Since he arrived to take charge at General Motors' brightest subsidiary this year, he has missed few opportunities - on a speaking platform or in interviews - to grumble about absenteeism, high labour costs and inflexible working practices, writes CHRISTOPHER PARKES.

And yet there he was in mid-August announcing that a DM500m investment in diesel engine manufacture, employing 475 and with capacity for 250,000 low-emission power units a year, was to be made in the company's Rhineland Palatinate plant at Kaiserslautern in preference to nine other options including the UK, Australia and Hungary. The decision was, he proclaimed, a signal that Opel still had faith in Standort Deutschland.

Apart from the 14 per cent contribution to the cost from the federal and regional governments and the European Community regional fund (the Rhineland Palatinate is being especially hard hit by the withdrawal of US forces from Germany), there were plenty of sound and logical strategic and commercial reasons why Kaiserslautern should be the natural first choice.

Employing more than 5,000, it has been built up since opening in 1966 as a main supplier of important components to Opel group factories - including Vauxhall and Saab - all over the world. Its staple output of engines, body parts, plastics, and rear axles was expanded in 1989 by the start of drive-shaft production. Power-assisted steering units joined the range in June this year. Because of previous rationalisation, the site had the necessary space available together with a reserve pool of

experienced and skilled engineers.

But the clincher was a benchmark agreement with the workers' council in which group working was bundled together with other ideas relatively new to Germany. As a result, the new production facilities will run round-the-clock for five days a week, uninterrupted by the customary stoppages for shift changes and breaks. Maintenance work will be carried out on Saturdays as a part of the normal working week.

While none of the elements in the package can be described as new to manufacturing practice, their combination and implementation in western Germany marked something of a break-through.

Starting on a greenfield site with ample job-hungry former employees of the old Wartburg works on hand, management was able to introduce US/Japanese-style working practices

from the start. As a result, the plant, open for just over a year, has just hired a further 500 workers to man a third shift. This made only a small dent in eastern Germany's unemployment figures, but it was a notable achievement in a sector which has been preoccupied for most of this year with arranging short-time working and job cuts.

The Kaiserslautern deal did not go unnoticed among hardliners elsewhere in the motor industry.

It was denounced from Wolfsburg, headquarters of the rival Volkswagen group, as an "attack on the economic structure of Germany". Opel officials thought that was "a funny thing to say" - especially since Mr Jürgen Gohardt, the former plant manager at Eisenach, who did all the negotiations with the work force, was promptly poached and made a main board director at VW's Audi subsidiary.

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The population is getting steadily older. The implications must be faced now, writes Andrew Gowers

A story of births, deaths and marriages

"THE Germans are dying out". Back in the early 1980s, the slogan was popularised by novelist Günter Grass in the subtitle of his short story *Kopfgeburt*. Ten years on, the prospect of a shrinking and ageing population is moving closer to reality - and is beginning to become a central preoccupation for Germany's chattering classes.

All over the land, people are marrying later, having fewer children and living longer. With the result that the number of Germans has already been declining for some time to a current 72m out of a total population of 80m. Within another decade, however, it is certain that Germany's overall population will embark on a steepening decline.

Suddenly, the experts fear, Germany will face a structural crisis with which it is ill-equipped to cope, as a shrinking working population bears the burden of an increasing number of old-age pensioners and as Germans themselves come to terms with the proportional increase of foreigners in their midst. The far-reaching consequences could affect every aspect of the way the country organises its political, economic, social and external affairs.

"It is like having termites in your house," says Meinhard Miegel, co-author with Stefanie Wahl of a study of the demographic problem just published by the Bonn-based Institut für Wirtschaft und Gesellschaft. "On the surface everything looks fine, but all of a sudden it collapses. This house looks sound at the moment and will continue to do so for some time

to come. Then, in the early part of the 21st century we will face a crisis."

Mr Miegel uses colourful metaphors for effect. In a sense, the challenge confronting Germany is the same as that faced by most of the developed world. In all the leading industrial countries, pressures on the welfare state are growing as a result of falling birth rates, longer life-spans and increasing immigration.

But Germany's problem is still more acute than that of its European neighbours and its American and Japanese trading partners, for several reasons. First, it is further ahead in the population cycle: the number of Germans started to decline 20 years ago, while most European nations were still in a phase of gentle growth; as a result, Germany already has a proportionately higher elderly population.

Second, although the problem has been disguised up to now by waves of immigration in the 1960s and late 1980s, that in itself has created difficulties thanks to Germany's failure to integrate most of the new inhabitants into its society. Such difficulties can only proliferate in the years ahead.

Third, Germany's history in this century has seen to it that population decline in the early decades of the next will seem especially acute. In the Nazi years, there was a sudden

surge in the birth rate as Germans were told it was part of their patriotic duty to procreate. The offspring of that baby boom are now getting on in years and in another decade will be starting to die off in significant numbers.

The numbers can be stated with almost predestined precision, for they reflect a secular trend of falling birth rates and diminishing family sizes dating back (with the notable exception of the Hitler years) to the early 1900s (see chart).

By the early 1970s, the generation of German children was less numerous than that of their grandparents and the number of deaths overtook that of births. Since then the margin has widened: at the turn of the century, Mr Miegel

estimates, deaths will exceed births by 300,000 a year, rising by 2000 to a staggering 600,000 - equivalent to eliminating the city of Frankfurt every year. Between now and 2030, the number of Germans will decline by about 15m - not far short of the current population of eastern Germany.

This is not a trend, say Mr Miegel and Ms Wahl, that can be reversed through some governmental magic wand. The individualistic Germans of today are not going to be persuaded to breed either through *diktat* or economic incentive. Even in eastern Germany - whose apparently more youthful population results mainly from a higher death rate under communism thanks to poor health care and difficult working and living conditions - the birth rate has plunged since unification.

One consequence of all this

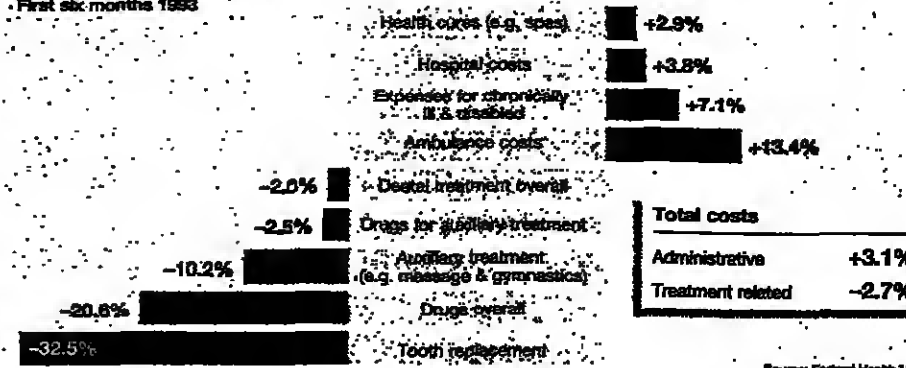
is an already perceptible "greying" of Germany. Today, one fifth of the population is 50 or younger and another fifth 60 or over. In 2000, the under-20s will still represent a fifth but the over-60s will have reached a quarter of the total; by 2030, only 16 per cent will be under 20, 46 per cent will be between 20 and 60, and 38 per cent over 60. In short, within less than 30 years, a diminishing population of working age will have to carry a roughly equal, and rising, number of people either too young or too old to work - at least under current laws.

The effects will be felt in every corner of society. School and university rolls will fall; the shrinkage in the population between 20 and 60 will dictate changes in government policies towards the labour market; the country's infrastructure needs will alter. Above all, the shifting shape of the population will entail significant structural changes in the economy, and in particular in the role of the state.

The most obvious burden will be on Germany's social welfare system. A rising number of over-60s - and indeed, thanks to medical science, of over-80s - spells increased

German health costs: the rises and falls

Percentage change in spending by the state-subsidised health insurance schemes per member. First six months 1993



Source: Federal Health Ministry

Mr Miegel and Ms Wahl even suggest that Germany's population shrinkage will over time serve to reduce its economic might. "In two generations, Germany might under realistic assumptions only be a medium-sized European power. Its population may not be, as today, the second largest in Europe after Russia's, but perhaps the fourth or fifth largest after Russia, Ukraine and possibly also France and Britain. And its population will be among the oldest in Europe and the world."

What, then, is to be done? There are no easy answers. Ideally, says the study, Germany would - while coming to terms with a some measure of shrinkage in its population - seek to offset it by adopting sensible policies on immigration and on the integration of foreigners, for example by allowing a greater number to become German citizens.

Unfortunately, nothing like this is remotely on the cards. The word *Bevölkerungspolitik* (population policy) acquired an ugly ring in German politics as a result of its abuse during the Nazi period, and the current generation of politicians tends to regard these issues as too hot to handle.

Nevertheless, they will not simply go away. If Germany does not start sensibly to debate the structural questions raised by its shrinking population soon, then it will find itself grappling with them in a much more polarised political climate 10 years from now.

Das Ende des Individualismus: die Kultur des Westens zerstört sich selbst, Verlag Bonn Aktuell, September 1993

THE report published by the German government on "safeguarding Germany's future as an industrial location" is an attempt to launch a national debate on the country's international competitiveness.

It is a report on the high costs of German labour, on the growing burden of the welfare state; on excessive public sector involvement in the economy; on resistance in change and suspicion of high technology; on inflexibility of management as well as of labour; on short working hours and machine running times; and on lack of competition in key areas of the German economy.

Some would argue that the entire subject, seized upon by Chancellor Helmut Kohl and his economics minister, Mr

Quentin Peel on the contents and importance of the Rexrodt Report

Ruthless self-examination

Günter Rexrodt, as the most important theme in Germany in the coming years, has been dealt with far too negatively. The report fails to highlight the extraordinary strengths of the German economy, its stability, and its capacity to change - slowly but surely.

Yet all sides of the political and industrial spectrum now accept that the subject must be urgently discussed.

The Rexrodt report seeks to address the issue not merely from an economic standpoint,

but also philosophically.

On the philosophical side, it calls for a return to old values of thrift, initiative, competitiveness and creativity, combined with solidarity, tolerance and humanity; in short, the values that have underpinned the extraordinary post-war success of Germany's social market economy.

"After more than 45 years of reconstruction and growing prosperity, many of these values do not have the same weight which they once had,"

the Rexrodt report says.

"Not least in connection with German unity, it is clear that the readiness for innovation and change has diminished to an extent which presents the economy and society with considerable problems."

"Structural changes are no longer perceived as chances for social and economic advance, as well as for greater prosperity. They are seen as a threat in rights and assets, a threat identified with unemployment and social decline."

The report, presented by Mr Rexrodt to the German parliament in September, spells out a whole range of problems and challenges which contribute to the concern over German competitiveness, and then sets out its own recommendations for reform. At the same time it calls for a national debate on the issues.

It sees seven major challenges to be accomplished: ● to create up to 5m new jobs in both halves of Germany, and thus wipe out the growing



Günter Rexrodt: seven challenges to be addressed

level of long-term, structural unemployment; ● to prevent the inexorable rise in state spending as a proportion of national income, and

particularly to limit the rise in social spending; ● to reverse the trends which leave Germany with the shortest working week, the shortest

working life, some of the longest holidays, and the shortest machine-running times in its factories;

● to invest more state money in research into new technologies, and less as subsidies for uncompetitive old industries; ● to cut back bureaucracy and red tape, which results in lengthy planning approval times for new projects;

● to cope with the dramatic changes in population structure, which will see one third of the population over 60 by the year 2030; and

● to reverse the trend towards purely academic training, instead of technical and vocational training.

The environment in which Germany must seek to meet

Continued on next page

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GERMANY 6

AT THE end of September, Germany's most powerful employers' organisation, Gesamtmetall, provoked cries of outrage from the country's most powerful union, IG-Metall, by vowing unilaterally to cancel wage and benefit contracts covering 3.6m metal-hashing and electrical workers. Two days later, senior IG-Metall representatives sat down with leading machine-tool manufacturers in Stuttgart to discuss a common strategy for saving jobs and improving the industry's performance.

The two events illustrate the contrasting forces at work in Germany's highly structured labour market as employers and unions struggle with recession and with the need to face up to structural change. There is tension as employers' organisations adopt a newly aggressive approach to negotiations on pay and conditions. But there is also a continuing will to co-operate in the search for more flexibility in the organisation of work. Warnings that the "social partnership" that has kept the peace in German industry since the second world war is under threat are thus premature. The real question is not whether the two sides of industry will continue to manage their affairs largely by consensus, but whether this approach is capable of producing an adequate response to the structural dislocation now facing the German economy.

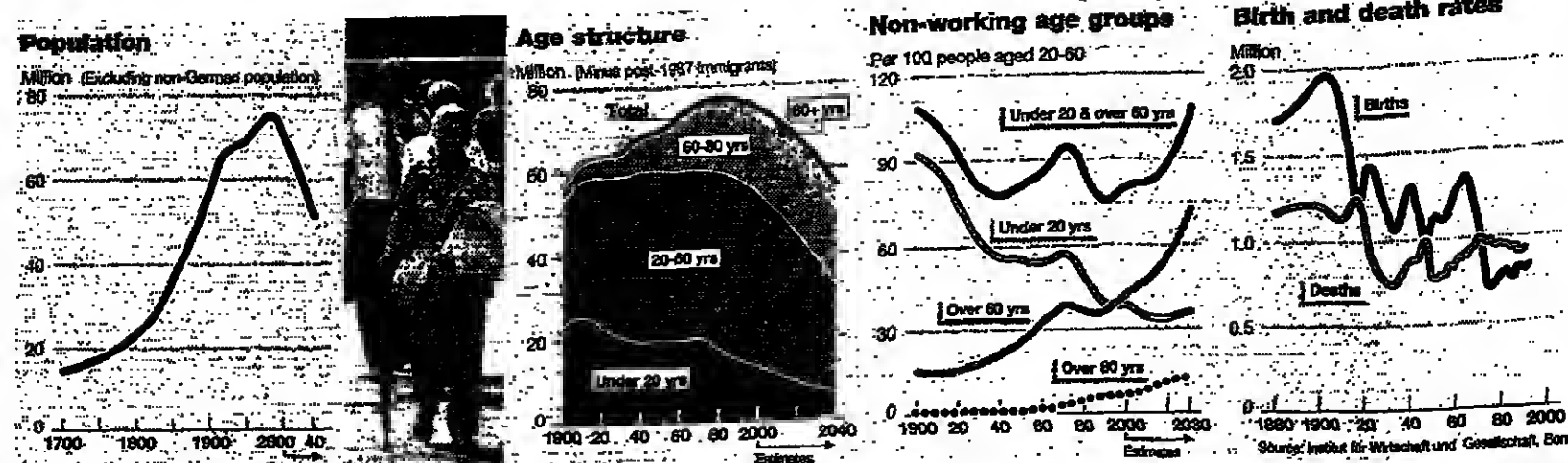
That the labour market is an important component of Germany's problems cannot be seriously in doubt. On the one hand the cost of labour has been rising faster than productivity and than in Germany's main competitors, while machinery running times and the working week are significantly shorter than in most

other leading industrial countries. On the other, unemployment and short-time working have been growing rapidly, and an increasing proportion of the jobless total of 3.3m has been out of work for more than a year.

What is more, portions of the economy – such as agriculture and, in some regions, construction – are becoming reliant on itinerant workers from such places as Poland and the Czech republic who enjoy none of the protection afforded the German workforce. The result is mounting polarisation between a diminishing but highly-paid workforce and a growing number of people either outside the formal labour market or with little hope of working again.

This, of course, is a pattern familiar elsewhere in western Europe. But Germany's problem is more acute. Labour costs – including the social contributions that have been growing especially rapidly in recent years – are already higher than in any other industrial country. In 1992, the average cost of manufacturing labour in west Germany was nearly DM42 per hour, of which DM20 constituted ancillary costs such as health and pension contributions. The comparable figures in France, Germany's main trading partner, were DM28 and DM13, and in Portugal, DM9 and DM4.

Moreover, Germany's system of industrial relations is among the most rigidly organised in the world, subject to a bewildering battery of government laws and centrally-negotiated collective agreements. Restrictions on working time, for example, meant that the average German worked 1,700 hours in 1992 compared with 1,900 hours in the US and 2,080 in Japan. It is a similar story with



Tighter share dealing rules are coming – and not before time, reports David Waller

Slow birth of a watchdog

FOREIGNERS who live in Germany often complain that there are too many rules, rules which prevent you walking across the road when you want or going shopping after 2pm on Saturday afternoons, or playing records at lunchtimes or after 10pm at night.

In the financial services sector, the complaint from foreign investors is paradoxically just the opposite – that there are not enough rules. In the German securities business, almost anything goes, a fact which Anglo-Americans used to highly regulated domestic financial markets tend to find disconcerting.

This unbalanced state of rulelessness is set to change. Barring unforeseen mishaps, the German parliament will next year ratify the so-called Second Financial Markets Enhancement Act, designed to fill the gaps in Germany's investor protection environment.

As Horst Köhler, former state secretary in the German ministry of finance, acknowledged when he introduced the draft of the new law in Janu-

ary this year, the regulatory environment is not up to international standards, to the detriment of Finanzplatz Deutschland – Germany as a financial services centre.

"This is a breakthrough for Finanzplatz Germany's international competitive position," he said at the time, "and it should secure jobs and income in this fast-growing sector."

The most important provisions of the law are as follows:

- creation of a federal regulatory body for the securities industry. This Bundesamt für das Wertpapierwesen will employ at least 100 people. The new body will be the German equivalent of the Securities & Exchange Commission, the powerful watchdog of the US securities markets.

- insider dealing will become a criminal offence, punishable by imprisonment or heavy fines. Financiers claim insider dealing is no more prevalent in Germany than in the UK or the US, but a series of scandals has highlighted the lack of such a law in Germany.

- a set of new rules designed to encourage disclosure and transparency on the German equity markets. These include a requirement for all price sensitive information to be published without undue delay. Companies will have to notify the German SEC about such announcements so the new authority can decide whether the companies' shares should be suspended.

- Companies will be obliged to disclose share-stakes when they reach or cross 5, 10, 25, 50 or 75 per cent. At present notification is only required when a shareholding reaches or

crosses 25 or 50 per cent.

• a set of rules of conduct for participants in the securities markets. This will define professionals' obligations to their clients.

The new law stops short of introducing a Takeover Code – although leading bankers such as Rolf Breuer of the Deutsche Bank have started to call for this too – but it will mean major changes for Finanzplatz Germany.

"As soon as we in Germany really start to take the problem of insider dealing seriously," commented Gerd Häusler, head of the Main Credit Department at the Bundesbank reflecting on the implications of the draft law soon after it was published, "many German market players who are not acquainted with the standard rules of ethics abroad will experience

something of a culture shock, not least because of our extremely passive attitude over recent years."

In alluding to Germany's "extremely passive attitude", Häusler put his finger on a puzzling issue: if reform is recognised as being so important, why does it take so long for it to be implemented? The draft law was first floated in January, 1992; it took another year before the draft appeared; it will not be enacted until the middle of next year; the German SEC is unlikely to be up and running until 1995.

The lack of any sense of urgency is more pronounced in another, related area: the reform of Germany's stock-market structure. It took decades of squabbling between the country's eight regional exchanges before they could

bury their mutual rivalries deep enough to create the Deutsche Börse – the German stock-exchange – at the beginning of the current year.

The slow pace of change suggests Germany is not unhappy with its financial services sector, even if in some areas – for example regulation or market fragmentation – the Finanzplatz is behind international standards.

This is understandable. The commercial banking sector – divided into private commercial banks, state-sector banks and co-operative banks – is thriving.

Banks are weathering the current recession in Germany far better than their peers in other countries.

Moreover, the Bundesbank's staunch defence of the value of the D-mark over decades has

turned the national currency into the world's second largest reserve currency.

The Bundesbank has repressed innovation in the German financial markets – by blocking money-market funds, or holding out against derivatives or commercial paper until very recently – but this has been in the name of monetary stability. Many Germans feel that this has been a far greater asset for the country than a UK- or US-style financial ser-



Finance minister Theo Waigel on unbalanced state of lawlessness

vices sector. Indeed, many Germans tend to assume that thriving, innovative financial markets – as in the UK or the US – go hand in hand with a weak economy. The fact that there are only 665 or so quoted companies in Germany, that the stock-market plays only a limited role in the country's economic life, is viewed as a structural strength rather than the opposite.

For as long as Germany has had the most dynamic manufacturing economy in Europe, there has been little need to challenge this assumption. The current recession, coupled with the costs of reunification, has changed this: Germany's traditional capital account surplus has swung into a deficit and companies are realising that they will be competing with the cash-hungry state for capital throughout the 1990s.

The source of capital at the margin is the foreign investor, whose needs have to be taken more seriously. Hence Germany has accepted the need for new securities market legislation.

Labour's mood

Continued from previous page

flexible. Agreements on pay and conditions reached through collective bargaining at national level, say the critics, cannot make enough allowance for differentials between regions and industries, however detailed and multi-faceted they may be. There are in any case considerable impediments on workers' ability to move.

More particularly, national pay agreements by definition cannot reflect the ability of individual employers to fund them. With an increasing number of German companies in financial difficulties, there is pressure for more of a profit-related component in wage settlements, or at least for a looser national pay-bargaining framework which would set basic minimum levels but leave employers greater flexibility than at present to fix precise pay scales.

Here, lies perhaps the most intriguing current pointer to how the German labour market will evolve in the next few years. For one of the biggest sources of stress at present is within employers' organisations such as Gesamtmetall, with small, and medium-sized

member companies threatening to break ranks.

For them, the modest degree of flexibility built into the national pay-bargaining framework is no longer enough. "Employers, especially in the Mittelstand, are complaining that they cannot afford to pay the agreed minimum," says Prof Friedrich Büttler of the German labour office's research institute in Nuremberg. "They are threatening to leave the organisations and make their own wage agreements. This is a challenge for the unions and for the employer organisations."

Some union leaders are already warning of the danger of growing inequality between different tiers of manufacturing industry, drawing what they see as an unwelcome comparison with Japan. "Look at Toyota," says Mr Rieker. "It has good relations with its unions, but relations are worse in the supplier companies and worse still in the suppliers of the suppliers. It leads to the pyramidisation of industry."

Whatever you call it, as the cost squeeze on the Mittelstand companies intensifies that is beginning to look like the shape of things to come.

WITH the arrival of autumn, hopes have been falling that Germany's present economic malaise – which was the result of an excessive increase in the cost of labour – could be overcome by a concerted effort of all groups of society. Instead, the country is bracing itself for another round in the fight over distribution of income between capital and labour, and the eastern and western regions.

The remnants of Germany's famous social consensus are likely to be destroyed by powerful interest groups, impervious to the appeals of the political establishment.

Social consensus between workers and employers was the secret force behind west Germany's post war economic miracle. This consensus was forged in the hardships after the war, which could only be overcome if frictions in society were minimised.

The post-war social consensus came under attack for the first time in the 1970s. The domestic social conflicts arising from a more aggressive union policy coincided with raw material producing countries' claim for a larger share in world income and the subsequent "oil crisis". At the same time, the German political climate deteriorated as the post-war generation began to challenge the social order created by the older generation.

The result of these conflicts was two recessions (1975 and 1982), a period of volatile and high inflation, high fiscal deficits and, at the political level, a bout of terrorism. The problems of the 1970s were eventually overcome by an armistice between

labour and capital – that cooled the disputes over income distribution – and by integrating the rebellious generation into the political establishment. There followed a period of relative stability in the 1980s, with steady but mediocre growth, low inflation, strong exports and low fiscal deficits.

Although the appearance of peaceful labour relations had been restored, the strong social consensus between capital and labour of the 1950s and 1960s had been lost.

Instead, there was collusion among special interest groups at considerable cost for the economy at large. As companies benefited from a long upswing and accumulating profits during the 1980s, German managers, who had been under no strong pressure to distribute profits to shareholders, agreed more readily to union demands.

Unions, who are represented in the supervisory boards of large companies, in turn tended to be more peaceful and to support management's corporate expansion plans. This cosy relationship between unions and management came at the expense of shareholders and average workers. The former had to accept more modest returns on their investment while

the latter had to cope with rising structural unemployment as unions were bidding up wages.

In 1990, unification shocked a west German economy where the dominance of special interest groups had led to severe procrastination. Instead of rejuvenating it, as many optimists had hoped, the unification shock pushed it into overheating and subse-

quent collapse. The accession of the eastern states to the Federal Republic brought a limited increase in the national capital stock, but a large increase in the labour force. Market forces would have depressed wages relative to profits in response to the drop in the capital-labour ratio. But this would have undermined organised labour's position in unified Germany and possibly shifted the distribution of income against it.

Thus, unions strongly resisted downward pressure on wages. Instead of allowing wages in west and east to converge towards a new equilibrium

(with west German wages probably somewhat lower than before), unions succeeded in quickly pushing east German wages up to western levels.

When the Bundesbank failed to accommodate wage inflation with an easy monetary policy, profits and investment plunged and the economy went into recession.

The unions' success in pushing up east German wages was made possible by a weak political and industrial leadership and a rigid organisation of Germany's labour market. Especially at the beginning of the restructuring process, unions had to deal with the old managers from the former GDR who were often on their way out.

Moreover, the managers of the largely state-owned companies were working under a "soft-budget constraint", that is, they could agree to excessive wage increases well knowing that in the end the government – and not their bankrupt companies – would foot the bill.

Nor did politicians resist excessive wage increases. Eager to win east German votes, they avoided taking a stance against the idea of a quick convergence of east German wages to

west German levels. Last but not least, as wage contracts were negotiated separately for west and east Germany and, as they were generally binding in each region, arbitrage was reduced: an east German worker who wanted to work in west Germany could not offer to work at a lower (eastern) wage to compete with west German job holders.

With the recession, the Government tried to ease wage pressures and to defuse the fight over the distribution of income by invoking Germany's legendary social consensus.

But the strategy to reduce peacefully the conflict of interests between capital and labour by forging a "solidarity pact" failed. What was possible in a society turned upside down by defeat in World War Two proved to be elusive in a country in the grip of powerful groups determined to defend their vested interests.

As the employers in the metal industry recently admitted when they took the unprecedented step of ending the existing wage contract by year-end, there is now little alternative to the containment of wage costs through open confrontation.

With numerous elections due next year, economic policy is unlikely to give much guidance. Thus, should employers and unions fail to correct past wage policy mistakes, financial markets will enforce a decline in pan-German real wage growth through higher inflation and a decline in the Deutschmark's real exchange rate.

□ The writer is senior economist, Goldman, Sachs, Frankfurt

Thomas Mayer warns of higher inflation and a weaker D-Mark

Tug of peace intensifies

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■ Every new venture begins with an idea – and

with a risk. Whether that involves international

trade, equity investment, corporate borrowing

or liquidity management, your

new associate represents an

unknown quantity. So diverging

interests, end the incalculable

human element inherent in every business

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GERMANY 8

Cash warnings sound for Germany's over-crowded universities, says Ariane Genillard

Students' salad days are over

IN THE 1960s, a book called "The Educational Crisis" pointed out that only 5 per cent of young Germans went to university. It sparked a national debate on reforming the country's elitist educational system.

Today, politicians and the entire educational community are again locked in debate. But the situation has reversed: 30 per cent of young Germans, or 1.8m students, attend university, more than twice the number they can comfortably accommodate. And 40 per cent of them drop out after two or three years.

Just as alarming, a third of all university students study for more than seven years, completing their courses well after the age of 25, the average age at which most German students leave university.

The popularity of the universities is slowly undermining Germany's much envied Dual System, which provides vocational training as an alternative to higher education and has produced a body of highly skilled young workers.

From the end of the war until three years ago, more young Germans preferred vocational training to university. The balance has since changed: there are now 1.8m university



Frankfurt students: 30 per cent of young Germans go to university (Picture: Ulrike Preuss)

students compared with 1.7m vocational trainees.

The trend has put financial pressure on the federal states, the Länder, which are responsible for all education costs other than buildings and infrastructure which are met by the federal government.

For the first time since the 1960s, the German states last year were forced to cut education spending by DM1bn to DM29bn.

To bring the rising costs of education under control and adapt it to the needs of a changing world economy, Chancellor Helmut Kohl has

taken a personal interest in the issue. Later this year he will chair a meeting of all state premiers and members of the educational establishment to discuss ways of narrowing the widening gap between the universities and the market place.

He spoke recently of "a worrying academisation of our society" and an described the new balance between university students and vocational trainees as "unhealthy" for the prosperity of German businesses.

There is also pressure from the private sector to reform the educational system. Together

with some members of the educational establishment, business associations are calling for a radical rethink of higher education in Germany, including the fact that it is state-controlled, free and accepts all students with a high school diploma.

"The whole system has to be changed if we want to remain competitive internationally," says Mr Tyll Necker, chairman of the German industry federation, the BDI.

The reforms long favoured by the private sector have now been taken up by the federal government which has outlined a series of measures to be

discussed at Chancellor Kohl's roundtable this autumn. However, the influence of the federal government is limited to setting a general framework and educational policy is the responsibility of the Länder.

To change the system coherently, a rare show of cross-party solidarity will be needed between Länder of different political colours. They are about to face a number of wide-ranging proposals from the federal government, including:

- Shorter study courses: Bonn wants secondary schooling to last 13 years rather than 15 as is now the practice in western Germany. Students should pass their *Abitur*, the comprehensive exam at the end of secondary school, when they are 19 rather than 15.

This suggestion has been strongly criticised, especially by the opposition Social Democrats (SPD) and the teachers' unions. In eastern Germany, where secondary schooling usually lasted 12 years before reunification, Brandenburg, now controlled by the SPD, recently changed to 13 years. There is also resistance on the right wing - from the Bavarian Christian Social Union a junior partner in the Bonn coalition, which fears that the quality of

education would be diluted.

The federal government also intends to discuss shortening the length of university studies. The idea is to charge students for spending more than the average time needed to complete a course. The SPD objects that this would discriminate against poorer students who interrupt their studies to finance their living expenses.

- More flexibility: The government suggests that university students who fail to graduate should be able to apply for jobs held by apprentices. In contrast, apprentices must be allowed to go to university at a later age. At the moment, the separation between the two systems remains too rigid, government officials say.

- Education must be closer to the needs of the market place. Technical universities, or Fachhochschulen, will only qualify for new funds if they offer courses in areas of industry which have growth prospects, (such as recycling).

But this is proving difficult to implement at a time when Länder are cutting their education budgets.

- Universities must be reformed. The government is proposing widening measures designed to make universities compete with one another. While some universities are better rated than others, students at present tend to go to their local ones. Now the government wants to introduce open entrance examinations and to give universities more

financial say over courses and staff appointments.

However, there is enormous resistance to such reforms from the educational establishment. Professors are public servants in Germany and enjoy special privileges and job security. "There is nothing you can do to a professor unless he steals money," says Mr Hersteins, director of the Christian Democratic parliamentary group in charge of education.

As a result, universities have tended simply to increase their courses without distinguishing between purely academic and applied subjects.

- Closer links between students and the working place. "We need to make sure that students are prepared for specific concrete jobs and that they get corporate training in the work place," explains Ms Anke Brunn, education minister in the state of North Rhine-Westphalia. However, the private sector, already hit by recession, cannot easily devote more resources to education.

Mr Necker, from the BDI, stresses that businesses want to be involved in formulating educational policy. But so far there is little private funding for new programmes.

Private sponsorship of on-site training and university teaching fell for the first time last year. Some 3,000 companies will offer 12,000 such programmes in 1993/1994, as compared with 12,000 places the previous year, according to the German Economic Institute in Cologne, the IWK.

"Our educational system is not oriented toward performance but toward diplomas," says Mr Riehl. Government officials warn: without structural changes, long and expensive higher education will undermine the competitiveness of German companies.

■ Research and development

Ill winds from Cape Canaveral and central Asia

THE mood at the annual meeting of Germany's aerospace industry federation in September was sombre, verging on suicidal, QUENTIN PEEL writes.

The venue was the splendid Petersberg hotel, overlooking Bonn from the mountains across the Rhine, but there was no other good news for the top executives, planners and customers of the industry.

The space men were the gloomiest: they are facing the probability of drastic further cuts in Germany's international space programmes, such as the Hermes space shuttle and the Columbus space station, which will put many of their jobs in jeopardy.

"We have already stretched all our programmes to the absolute limit, by slowing down spending," according to one senior manager. "From now on it is going to hit our jobs. The latest American deal with the Russians will leave us out in the cold."

There was little of cheer for them from their colleagues in the defence and civilian aircraft industries. Deutsche Airbus is laying off 2,700 workers in Hamburg. And the Eurofighter 2000, the defence industry's prestige product, has just had its maiden flight postponed by another six months.

Mr Wolfgang Piller, president of the federation, was apocalyptic. "If you know the strategic importance of the aerospace industry, and then consider its public standing and apparent value in public opinion, and in wide sections of the political establishment, you can only conclude that there is a grotesque lack of proportion," he said.

"In complete contrast to Japan, where aerospace has been declared a 'strategic industry', in Germany there is far more concern about the dying industries of the 19th century than there is recognition of the unique potential of aerospace."

Throughout German industry, and not just in aerospace, there is a growing fear that the country is becoming hostile to innovation.

Mr Paul Krüger, the new minister of research and technology, spelt it out in a series of guidelines for future government policy last July. "Fear of new technologies, rather than creativity, dominates German society," he warned. "Our greatest efforts are devoted to 'fencing off' innovation potential, rather than liberating and encouraging it."

"Our first reaction, even to quite small steps into technological virgin territory, is far too often hysteria, rather than justified vigilance, soberness, and confidence in our own creative power."

Yet the government is by no means blameless in according the research sector less than top priority. Mr Krüger, a new minister from east Germany, has been unable to prevent his budget from being frozen in nominal terms, at DM9.47bn, and therefore effectively cut. "I am not content, but I can live with it," he said.

What he is trying to do now is focus his limited funds on key priorities - with environmental research, health, transport and energy top of his list. He wants to do far more to promote better links between the conservative basic research establishments, and German industry. He wants to stimulate more competition for cash. Above all he wants a debate on the benefits of new technology, rather than the dangers.

As for the European Space Agency, to which Germany is supposed to pay DM1.17bn next year, Mr Krüger believes he can still negotiate "significant savings".

According to Mr Frieder

Meyer-Kramer, head of the Fraunhofer Institute for systems technology and innovation (ISI) in Karlsruhe, per capita spending by the federal government fell from DM126 for western Germany in 1989, to DM117 for the united Germany in 1993. The growth of R and D spending fell from 7.1 per cent in 1981-89, to 3.4 per cent in 1989-91. As a proportion of gross domestic product, total public and private R and D spending has slipped from 2.88 per cent in 1989 to 2.65 per cent in 1991.

Much of the decline can be attributed directly to the huge cost of unification, and the need to make cuts in virtually all other budgets. Nevertheless, Mr Meyer-Kramer, whose institute is the country's leading researcher in the fashionable field of technology foresight, fears that "the crumbling technological competitiveness of the federal republic will simply worsen" if the spending decline continues.

Mr Konrad Seitz, former head of the planning department at the foreign ministry, has argued that Germany is in danger of getting caught between the twin millstones of low wage competitors and high technology competitors, falling in both tasks. He argues for a huge effort to switch to "new

There is a widespread fear that Germany is becoming more hostile to innovation

technologies such as information technology, biotechnology, new materials, new energy sources, and aerospace.

Mr Meyer-Kramer disagrees. "I don't believe this is sensible, because it makes no allowance for the traditional strengths of the German economy," he says. "Germany's strength is concentrated particularly in engineering, transportation, chemicals and pharmaceuticals. We should reinforce our traditional strengths through the application of new technologies, like information technology."

He says it still needs a considerable change in industrial thinking. "The motor industry, for example, needs to see itself as a 'mobility industry', dedicated to the goal of providing all sorts of instruments and systems for ensuring mobility - with or without cars."

ISI published a Delphi report earlier this year on the expectations of German industry, suggesting 87 different "critical technologies" on which Germany should concentrate in the future. A key element is that technologies can no longer be compartmentalised, because it is precisely in the borderline areas that the most exciting advances are being made, as in bio-informatics, and optical electronics.

Mr Meyer-Kramer also defends the fragmented state of the German research industry, and rejects calls for bigger, more concentrated research centres. But if the fragmentation remains, there is a big need for better inter-disciplinary communication.

He knows there will not be any more public cash for the immediate future. "The cash tills of the federal government and the states are empty, when it comes to financing new costly initiatives in the coming years. Public financing of research has reached its limit."

One answer he suggests is increasing privatisation of the publicly-financed research industry. "If we are thinking about mobilising more private capital for our transport infrastructure, why not for research infrastructure too? I am sure this will become a central theme in the coming years."

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Industry queries the cost of environmentalism

Polluters in revolt

ENVIRONMENTAL protection in Germany is like motherhood: no one would dare to question it.

Environmental issues remained the number one public concern until last year, when it was overtaken by crime and unemployment.

Green affairs cut across party lines. Some of the toughest environmentalist laws were adopted in the 1980s under a conservative government. In the September elections in Hamburg, the Green party saw its support double from 7 to 14 per cent.

But with the recession biting hard, the private sector has sent clear signals to the government that environmental policies need to be rethought. It argues that high environmental expenditure makes it harder for German companies to compete internationally.

The debate is in full swing: the government reiterates the formula that "the polluter pays"; industry calls on the government to go easy on environmental legislation.

"We need a breathing space to allow companies to implement existing requirements," explains Mr Manfred Schneider, member of the board at the Bayer chemical group.

Other business leaders claim environmental requirements are slowing investments. According to Mr Adolf Hütti, chairman of Kraftwerk Union, Siemens' power subsidiary, investment is being diverted from new power stations.

Problems also arise in the public sector. German municipalities, responsible for waste water treatment, are increasingly unable to finance the last stages of clean-up laws adopted in the early 1990s.

Assessing the share of total costs represented by environmental expenditures remains difficult. Figures differ according to the speaker.

Government officials say environmental expenditure accounts for only 0.7 per cent of total costs. Consulting groups estimate that they lie between 1 and 2 per cent. The OECD, in its report on the environment in Germany, reported that such expenditures could be as high as 3 per cent in the manufacturing sector.

But a company such as Bayer, spent 8.5 per cent of its turnover, or DM1.5bn, on environmental protection last year.

The German industry federation, the BDI, recently urged the government to implement two changes in its environmental policies to ensure that German enterprises were not put at a disadvantage.

First, it wanted a simplification of complicated and bureaucratic environmental procedures. "We end up with an information deficit which is particularly dangerous for our small and medium-sized enterprises," says Mr Arnold Wilmsen, director for environmental issues at the BDI.

Second, it says the government should set targets but let industry decide how they can be met.

"Companies want more mar-

So much waste has been reclaimed that industry is unable to recycle it

ket-oriented solutions to the environment. They don't want to just be pushed into a corner," explains Mr Franz-Joseph Fraundorfer, managing director for the environment at Arthur D. Little in Germany.

Government officials have been on the defensive. "Environmental protection is not a luxury for sunny times. It remains an important goal even under difficult economic conditions," says Mr Wolfgang Schäubel, leader of the ruling Christian Democrats in parliament and a key adviser to chancellor Helmut Kohl.

But the government has responded to some of the industry's demands. Earlier this month, the parliament adopted a law which considerably simplifies the procedures needed to conduct research in bio-technology. Previous procedures, which were time-consuming and bureaucratic, had made research companies prefer to open laboratories in other countries, such as in the US, rather than in Germany.

The government is also considering allowing more choice over how to comply with a proposed law on recycling of consumer goods. Rather than

demand recycling at any cost, the law should allow enterprises to burn refuse if such methods are "economically more viable".

A lesson has been learned from the law which set high recycling quotas for household waste packaging. The near-bankruptcy of Duales System Deutschland (DSD), the national collecting and recycling system set up by industry, has provided food for thought. DSD has accumulated more waste packaging than it can recycle partly because industry failed to develop the recycling technology in time to meet the targets set by the law.

Such problems caused the government to think twice about how industry should meet environmental targets. It is now considering incineration for household waste disposal - a method long opposed by politicians who viewed it as environmentally unacceptable.

However, changing policies will meet public resistance. For example, local pressure groups are opposed to the construction of waste incinerators in their communities.

Government officials point out that the need to meet high environmental standards has led the private sector to develop the equipment to do so. The manufacture of environmental products and technologies now provides jobs for 860,000 people in Germany, according to Mr Klaus Töpfer, the environment minister. The industry, which last year had a DM40bn turnover, is expected to grow by between 6 and 8 per cent next year.

Environmental technology has also become a valuable export for German companies who hold 21 per cent of the world market in this sector. In 1990, the industry exported 40 per cent of its turnover, as compared with 10 per cent in the US and 6 per cent in Japan.

"Environmental protection is a chance for German industry to show its competitiveness," says Mr Gerhard Baum, liberal deputy in charge of the parliamentary environmental committee. That still reflects the mood of the government.

Ariane Genillard

MR FRIEDHELM GIESKE, the tough-talking boss of mighty RWE, Germany's sixth largest industrial group, and its biggest electricity generator, does not mince his words.

He does not like the sort of ideas being proposed in Brussels for more open competition in the European electricity market. He does not think they are fair. If it is going to happen, he is determined that all the operators in the EC market should face the same ground rules.

"The German electricity industry, in so far as it falls under European competition rules, must have the same operating framework, the same risks and opportunities, as the rest of the European industry," he said recently.

He does not think that is true today.

The industrial price of electricity in Germany is around six pence per kilowatt-hour more expensive than in France. "Energy-intensive industry is already looking for other locations outside Germany, because of the high costs," says Mr Thomas Klante, spokesman for RWE.

The German utilities - there are more than 1,000, but the industry is dominated by the Big Three, Bayernwerk in Bavaria, PreussenElektra in Hanover, and RWE in the Ruhr - insist the reason is not their inefficiency or lack of genuine competition. They blame a series of "special burdens" imposed on the German industry which have made it clearly uncompetitive.

The first is the political uncertainty hanging over the future of nuclear power generation in Germany, where all construction of such power stations has come to a complete standstill. Nuclear power provides just 34 per cent of German electricity, compared with some 70 per cent in France.

The second burden is the cost of supporting Germany's indigenous hard coal industry, whose output costs around DM275 per tonne, compared with a world market price of around DM85 per tonne. Most of the difference is made up by German consumers, who pay an ill-named "coal penny", now amounting to a 7.5 per cent surcharge on their bills, to subsidise domestic coal. But electricity utilities claim that, even with that cash, they still have to cross-subsidise coal-burning power stations with their cheaper nuclear power.



German MPs visit a nuclear power station: construction of all new plants is at a standstill

Electricity faces commercial war, says Quentin Peel

Alternating currents

The third burden is the very strict environmental legislation in Germany, which has imposed higher standards of pollution, health and safety than in most other EC countries. Now the German government is a prime mover for a carbon dioxide tax in the EC, which would ironically hit Germany hardest, because it burns more coal, above all soft brown coal, in its power stations.

Finally there is the unique burden of rebuilding the east German power supply and distribution network, estimated to require an investment of at least DM46bn over the next 10 years.

All of these issues are now on the table at an extraordinary round of negotiations between the relevant government ministers, the opposition Social Democrats (SPD), the electricity utilities, and the trade unions, to thrash out an "energy consensus". It is particularly German, unstructured, and unpredictable in its consequences.

The nuclear debate, for a start, looks hopeless. The Greens, who had earned their seat at the table because they are part of ruling coalitions in at least two key state governments - Lower Saxony and Hesse - where nuclear power is generated, have walked out because they have been unable to force through its total abandonment. The SPD is divided

between outright opponents of nuclear energy and cautious adherents. In the ruling coalition, the Bavaria-based Christian Social Union (CSU) is strongly pro-nuclear, while the rest are sympathetic but pragmatic.

The irony is that the pro-nuclear and pro-coal lobbies have a strong common interest. Both sides argue that, as German coal is so expensive, the

Nuclear power is under a political cloud and coal depends on subsidies

country can only afford it if it compensates with cheap nuclear power.

"We are not in competition with nuclear energy," says Baron Alfred von Spies, head of the German coal industry federation. "We believe in an energy mix, because it is secure in terms of supply and in terms of risk. Preserving an energy mix is the reason we can afford high subsidies for hard coal."

It is the reason the SPD is divided. Leaders from the big coal mining areas, such as Mr Johannes Rau, premier of North Rhine-Westphalia, "know that the end of nuclear power in Germany means the end of indigenous coal-mining," says Mr Thomas Roser, director of the nuclear lobby

group in Bonn, the Deutsches Atomforum.

On the other hand, the power industry is divided. Bayernwerk, in the south, is heavily dependent on nuclear energy, which already accounts for about 70 per cent of its power. RWE and Preussen-Elektra, in the north, could switch to other sources: they could go for coastal power stations fired by gas or imported coal. So they are less committed.

The issues on the agenda of the consensus talks are daunting. They must decide on the acceptable operating life of the 20 nuclear power plants which are working. They must decide on an acceptable way of either reprocessing or disposing of their nuclear waste. Nobody really expects them to succeed yet in deciding whether to go ahead with a new generation of N-plants.

On the coal front, they must decide on a subsidy system to replace the coal penny which is acceptable both to the European Commission, and the German power industry. For once they are arguing in the same direction. The former wants absolute transparency in coal subsidies, and a plan to phase them out. The latter wants a system which will make the price of German hard coal competitive with the world market price, so they pay no hidden subsidies. The answer would

appear to be some form of direct coal tax, payable to the mines.

As for the environment, they must decide on the future of the carbon dioxide tax. That is fiercely opposed by the industry, above all RWE, which gets the largest portion of its power supplies from brown coal.

"If the CO2 tax is introduced here, then brown coal will be uncompetitive (with imported coal) from that moment on," says Mr Klante. "It is currently the only primary energy source in Germany which has been and will be available in large quantities, and which is not subsidised."

Brown coal is also the source of virtually all power generation in east Germany: 95 per cent in 1992. For the preservation of jobs in east Germany, and for its economic future, brown coal is essential.

The East may yet prove to be the soft underbelly of the mighty electricity utilities' total domination of the German industry.

The Big Three thought they had the market sewn up with the Stromvertrag (electricity contract) they signed with the transitional East German government, even before unification. The contract was challenged by 164 local authorities in the German constitutional court, because it restricted their rights to generate their own power supplies.

The two sides have limped towards a compromise, which allows the local authorities guaranteed access to the utilities' grid.

At the same time, the Treuhand privatisation agency, backed by the finance ministry in Bonn, has decided to bring foreign investors into the brown coal mining industry, instead of leaving it all to RWE's Rheinbraun. A consortium of Britain's PowerGen and NRC of the US looks set to buy Mibrag, the middle-German opencast mining operation, and, with it, access to the east German grid.

So the utilities are suddenly fighting on three fronts: in Brussels, Bonn and Berlin.

Mr Gleske is angry. He insists that the east German brown coal industry will only be economic as a single entity. But if the political authorities are determined to bring in outsiders, so be it. They must live with the uneconomic consequences, he says. Few who know him believe he will give in without a bit more of a fight.

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GERMANY 10

Judy Dempsey reports on the rapid progress of history's biggest auction

How the state withered away

WHEN the history of the Treuhand, the agency charged with restructuring and privatising eastern German industry, is written, it will be recorded that never before had an organisation been charged with privatising an entire economy in such a short space of time.

It is one of the largest privatisations ever undertaken. No doubt, other large sell-offs will follow - probably in Russia. The economic historian will also show how the agency, hastily created in the ebbing days of communist rule in eastern Germany, provoked ferocious criticism from eastern Germans - even more criticism than the former communist state received.

Mrs Birgit Breuel, head of the Treuhand, explains the intensity of that criticism. "Our bad reputation in eastern Germany results from our job to reduce their jobs." In pursuing its mandate, the agency in one sweep effectively replaced a state-run economy with an institution committed to the market economy. It believed there was no alternative: no half-way house between a centralised and market economy.

In the early days, the Treuhand made terrible mistakes. When it started its operations on Leipziger Strasse in Berlin in July 1990, west German companies rushed in to make quick killings. These took two forms. They bought the cream of eastern German companies to keep out foreign competition. Also, they bought companies to secure the real estate, and then closed them down.

Mrs Breuel does not deny any of these charges. However, the Treuhand had no instruments for privatising the 13,000 enterprises placed in its charge. "We had nothing but the law at that time," said Mrs Breuel. "We had no tools, no rules, not even a list of the companies for which we were responsible. We had to do everything at the same time. Find out the companies and all the other things for which we were responsible. Build up a team and the manpower, and develop our own rules," she adds.

The rules quickly evolved. Even if an investor bought an enterprise for a token D-Mark, he or she had to guarantee a certain number of jobs and a level of investments spread over several years. Through this system, the agency has saved 1.5m jobs and secure investments totalling DM180bn after privatising nearly 13,000 companies. But 2.5m people were made redundant.

For its part, the Treuhand agreed to pick up the enterprises' losses, and environmental liabilities. The Treuhand debt stands at DM280bn - eastern Germany's total GDP for this year is estimated to be DM220bn.

The debt consists of bank liabilities of DM90bn that have been, or are still due to be taken over from eastern German state enterprises targeted for privatisation; bonds already, or in the future, to be issued by the Treuhand to finance its current activities, including the restructuring and operation of unsold enterprises and debt servicing (by 1995, these will amount to DM145bn); contingent liabilities, including the costs of environmental clean-up,

include the uncompetitive chemical, heavy machinery, and engineering sector.

The Treuhand has set up five management companies under which several enterprises will be placed to be restructured by western German managers with the aim of eventually privatising them. But, along with Buma, the giant chemicals plant, and Deutsche Waggonbau, the railway coach manufacturers, the agency now finds that it is being pulled between the

For social reasons the Treuhand often cannot afford to close enterprises which have no hope of being competitive

which will exceed DM45bn.

The agency's job is nearly complete. What remains of the Treuhand's work includes a contracts department which will monitor the implementation of the investment and job guarantee commitments; the real estate arm of the agency; the sale, or renting and selling of agricultural and forest land; and the remaining 1,380 enterprises still on its books. The latter employ a total of 259,833 people. But some of these enterprises will not be easy to privatise, let alone restructure. They

politicians, economists and bankers about the fate of these companies.

For social reasons, the Treuhand cannot afford to close down these plants. Neither the politicians in Bonn or in the eastern states would support such a move; federal and state elections take place next year. On the other side, economists and bankers are loath to see the west German taxpayer subsidise enterprises which have no hope of ever becoming competitive.

It is no wonder Mrs Breuel believes the agency has become a scapegoat, or a

shield for the politicians. "For quite some time [the agency was a scapegoat]. This was the idea of our job, actually: to have distance between the politicians and the Treuhand's enterprises. No politicians in the world could have taken our decision. I myself am convinced that it was a very clever idea..."

A debate about the fate of these "core" companies which once formed the backbone of eastern Germany's manufacturing and industrial base is now in full swing. Furthermore, economists are asking about the impact the newly-privatised sector will have in helping to create a basis for a new competitive industry.

Perhaps it is too early to answer this question particularly since the Treuhand's work has taken place against the backdrop of three factors: the collapse of the markets in eastern Europe and the former Soviet Union; the recession in western Germany, which has affected investments and orders in eastern Germany; and the insistence of former east German managers, west German employers, and IG Metall, the engineering trade union, to bring eastern German wage levels up to west German levels by 1996. This is despite the

fact that productivity in the east is about 65 per cent below its western counterparts.

However, some general observations can be made. First, the common complaint made by investors is that the job guarantee and investment commitments are too inflexible. Mr Heiner Flassbeck, chief economist at the Berlin-based German Institute for Economic Research, argues that managers cannot rationalise further to generate higher productivity - and eventually profits - because of the contracts.

Mrs Breuel says contracts can be made more flexible - for example, investments can be spread over a longer time span. So can be spread over 10 per cent of the privatised far, about 10 per cent of the privatised companies are seeking the renegotiating of the contracts. It is unclear how many will be unable to survive even if the contracts are made more flexible. But Mrs Breuel is adamant the Treuhand will not buy back companies. "Our mandate is to privatise," she said.

A key indication of the success of the privatised companies will emerge over the next few years when the contracts expire. If they have weathered the recession and the high wage levels, will they retain or indeed expand their labour force; or, if they shed jobs, will there be sufficient growth in the eastern German economy to absorb those who are made redundant? The Treuhand would relish a Yes to both questions. It would confirm that it has laid the basis for a new competitive industry. It would also answer the critics.

IF AN investor is considering locating in Bitterfeld in the eastern state of Saxony-Anhalt, it would be best to ignore the raised eyebrows and comments from those who have not seen this large 1,500 acre industrial site since unification, writes JUDY DEMPSEY.

Instead, it would be more useful to read a short novel, called *Flugasche*, by Monika Maron. As a young writer and journalist, Ms Maron was commissioned in 1978 to write an article extolling the virtues of socialist state planning in eastern Germany's chemical sector, which was concentrated around Bitterfeld.

In those days, the only thing that glowed in the region was the flames rising out of the vast furnaces, which in turn contaminated the atmosphere and filled the air with a stench so foul that breathing was often difficult.

Ms Maron did not stick to her editor's brief. Horrified at what she saw, she chose to tell the truth about Bitterfeld: the hazards; the working conditions; the way eastern Germany's chemical sector was managed. She paid the price. Three years later she had to leave for west Germany.

More than a decade later, the Treuhand, the agency charged with restructuring and privatising eastern German industry, embarked on an ambitious programme aimed at turning Bitterfeld into a site for tomorrow's high technology entrepreneurs. The enormity of the challenge is obvious when set against Ms Maron's novel. The question is whether the agency will achieve its ambitious goal.

The agency inherited an extraordinary

Bitterfeld was synonymous with the GDR's industrial pollution. Now it is courting new investors

Technology and green sites for sale

complex of chemical industries which produced more than 3,000 different items ranging from chlorine, potassium hydroxide and sodium hydroxide, to magnesium-aluminium alloy. It also inherited a workforce of 29,000.

In 1988, Bitterfeld's annual turnover was about 40m Ostmarks. The sales were targeted on eastern Germany's large manufacturing sector, as well as exports to eastern Europe. But monetary union, and the collapse of Comecon, the socialist trading bloc, quickly exposed Bitterfeld's uncompetitive. By 1991, the workforce had been cut to 11,000, and turnover had fallen to DM490m. By the end of this year, the labour force will have been further reduced to 2,300, turnover will have dipped to DM300m, and losses will total DM80m.

In order to make Bitterfeld attractive for investors, the Treuhand decided not to sell the sector as one big block. Instead, as Mr Dieter Ambros, head of Chemie AG, the Treuhand-backed holding company for this sector, explains: "We decided to put up different parts for sale". This meant first breaking up the giant Kombinate, or original company, into 135 units, and then preparing each one for privatisation by introducing an accounting system, hiring managers to run them, and restructuring

them. So far, the Treuhand has privatised 45 per cent of Bitterfeld's assets, which total DM2bn. In addition, it has attracted DM2bn in private investment. Above all, it has managed to bring to the region some of western Germany's leading chemical and pharmaceuticals, including Bayer, and Heraeus Quarzglas. The latter is the first plant in Europe which will produce synthetic quartz glass for semi-conductors,

mining sector, sums it up. "We want to turn Bitterfeld into a modern industrial park and we want to make the region competitive."

To achieve this aim, the agency has adopted a four-pronged strategy: modernising the infrastructure, maintaining a high level of incentives, introducing a mix of industry, and minimising red tape.

Along with the costs of restructuring the

The nagging question is: why should investors come to Bitterfeld, when they can go to eastern Europe or remain in west Germany?

and for the optical fibre industry.

The 64-year-old Mr Ambros, a former manager of BASF, who came out of retirement because he believed he could use his skills to modernise the eastern German economy, has used every possible contact to bring investors to Bitterfeld. "Those who invest bring other people," he says.

But there is still the nagging question as to why investors should come to Bitterfeld, particularly when they can go to eastern Europe or remain in west Germany.

Mr Klaus Schuch, a member of the Treuhand's board, who is responsible for eastern Germany's entire chemical and

chemical industry, the Treuhand has allocated about DM1bn in cleaning up the site, installing new waste water treatment plants, and a solid toxic waste disposal recycling centre spread across 175 acres. "A modern infrastructure is the key to attracting investments," says Mr Ambros.

He adds that Bitterfeld now includes, besides some of the most modern recycling and waste disposal units, its own digital telephone and satellite network. In other words, the fact that the region has had to be completely restructured has meant that it is now equipped with some of the most modern infrastructure.

The Treuhand has also put in place crucial investment grants. These include 8 per cent bonuses for procurement and production of new, depreciating moveable real assets; subsidies up to 23 per cent for commercial enterprises; and special depreciation allowances of about 50 per cent for procurement and production of immovable assets, expansion, and subsequent construction works. In short, an investor can write off 45 per cent of costs through tax relief, investment allowances and subsidies.

Diversification is also important. As Mr Ambros argues: "We are working towards establishing here a mix of industry; a third concentrated on chemicals, a third chemicals-related, and a third on other business, such as services."

But products produced at Bitterfeld need markets. At a time of world-wide recession in the chemicals industry, and a recession in west Germany, surely the idea of expanding to or locating in this potential industry park is fanciful.

"In Germany, the problem is a structural one. The Germans are God-damn lazy. They have the shortest working hours and the longest holidays. We do not intend to repeat those traits at Bitterfeld," says Mr Ambros.

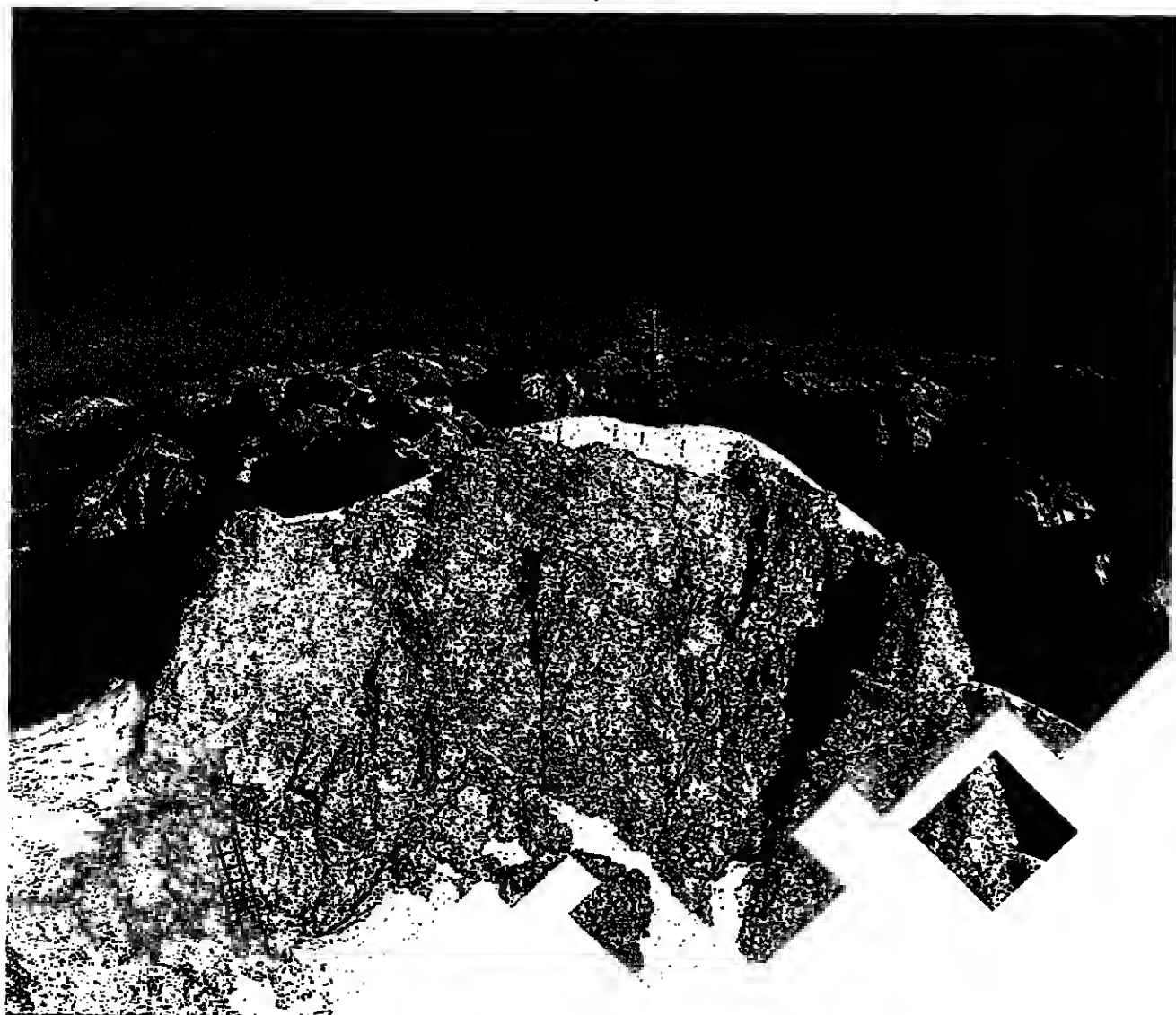
In contrast, he cites the administration at Chemie which, with local councils, has cut through bureaucracy, red tape and endless delays in planning, a common feature in west Germany. Chemie will continue to privatise local services, such as heating and maintenance.

The Chemie head concedes that investors can go across the border to eastern Europe. "But what we offer is very high technology. Greenfield sites here will be turned into the most efficient and modern in Germany," he says. "You have to remember that there is a century-old tradition of chemists in this region." (G. Farben, dissolved after the war because of its mass use of slave labour to aid Hitler's war effort, was based at Bitterfeld.)

Mr Ambros reckons his work will end by the middle of next year. By then, a new holding company structure will have been created, giving managers of the privatised companies membership on the board. He hopes to privatise most of the remaining services, which will have the effect of reducing the current DM80m losses.

But the Treuhand's work at Bitterfeld is not yet over. About 15 per cent of the site has still to be privatised. The agency might have to liquidate those enterprises which have little chance of survival, thus pushing up the unemployment rate, or else subsidise them for some time yet.

In the meantime, Mr Ambros remains confident that Bitterfeld can slowly attract investment and expertise. "We expect to have 3,200 new jobs by the end of 1995 once some of the large plants are up and running," he says.



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مكتبة الامم المتحدة

The welfare state is not faring too well, Quentin Peel writes

The burden grows heavier

GERMANY'S generous social state is caught in a double bind.

On the one hand, the demographic trends are resulting in an ever increasing aged population, needing greater health care, residential care, and pensions, while the actual size of the working population is shrinking. That is a problem common to virtually all the western industrialised world.

On the other hand, the traditionally generous German benefit system has been knocked sideways by the sudden advent of 17m new potential claimants from the former east Germany, wanting full benefits, but only just beginning to make any insurance contributions now.

The result has been an explosion of costs, which has suddenly focused attention on the capacity of the German economy to carry on paying so much.

When the total cost of social spending passed the DM1,000bn mark this year, reaching rather more than one third of gross domestic product, it brought the problem home to

Unlike the UK system, German insurance funds are self-financing

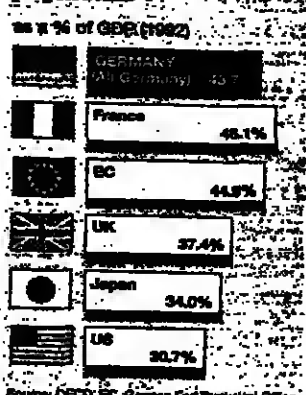
the ordinary citizen. Yet he already has a very precise idea of what the rising costs mean to him.

The three pillars of the German welfare state - health insurance, pensions and unemployment insurance - have always been generous in their benefits. Unemployed workers, for example, have until now received two-thirds of their former salary for 32 months, and then a few percentage points less, indefinitely.

Unlike the British system, where social security payments and income tax payments are effectively all part of a single kitty policed by the Treasury, German insurance funds are self-financing, and contribution-driven. It is only when payments outstrip contributions that the state must step in to make up the shortfall.

It has always been easier in Germany to allow insurance contributions to rise as social spending has soared, rather than switch a part of the burden to the general taxpayer. The result has been a rising burden, not only on individual workers, but on their employ-

Tax and social security payments



ers, for they share the insurance contributions for all three funds on a 50:50 basis.

The proportion of gross income which the employer and employee must jointly pay in insurance has risen from just 26.5 per cent, in 1970, to an estimated 39.2 per cent next year, thanks to a two percentage point jump in pensions contributions.

According to the Economics Ministry's big policy paper on Securing the Future of Germany's Economic Base, total labour costs in Germany are now running at DM42 per hour, of which ancillary costs - mostly social contributions - are no less than DM20. The comparable figures in France are DM28 and DM13, and in Portugal DM9 and DM4.

"The limits of social policy should be set where the social framework and redistribution of income starts to endanger overall economic performance, because economic incentives are weakened and the individual responsibility of both citizens and enterprises is undermined," the paper says.

The aim it sets out is to stabilise contributions for health, pensions, and unemployment, and in the medium-term, start to reduce them. It is much more easily said than done.

In the first place, the government is committed to introducing a fourth pillar to the social security system - an insurance system for residential care for the old and handicapped, whether they need to live in homes, or be cared for in their own homes.

At present such nursing care is financed by local authorities, but the rapid rise in the elderly population has put a well-nigh intolerable burden on their

budgets, and the government has promised to find an alternative system.

Chancellor Helmut Kohl and his Labour Minister, Mr Norbert Blum, seem to see the scheme as a vote-winner in next year's elections, although it will not result in any improvement in nursing care in the near term. It will simply transfer the financing to a new scheme.

Their problem is how to finance it without adding yet another brick to the pillar of social contributions.

After three years of painful negotiations, the answer they have come up with seems to have pleased no one: they suggest cutting the number of national holidays in the calendar from 10 to eight, or instead, allowing workers to choose to take a 20 per cent pay cut on those holidays. In this way, they say, employers will be effectively compensated for the increased insurance contribution.

The workers are furious, and the employers unpersuaded. The former are simply mad to be paying more contributions, and losing precious holidays to compensate their bosses. The latter believe that the scheme will anyway soar in costs - one estimate puts it at DM12bn a

year straight away - leaving the "compensation" far behind.

As for the rest of the social spending, the real problem lies now with unemployment benefit.

With the sharpest downturn since the war, and unemployment in the two halves of the country expected to rise from 3.5m today towards 4m next year, the costs of unemployment benefit, short-time working allowances, job creation schemes and the like have rocketed.

The Federal Labour Office faces a deficit this year, in spite of its increased unemployment insurance, of around DM27bn on total spending of some DM14bn.

A huge share of that is the cost of labour market measures, retraining and the like, in east Germany. Yet the cost is borne entirely by western workers who pay unemployment insurance - which excludes all public servants, and all the self-employed. That is another cause of deep bitterness among ordinary workers and the trade union movement.

Provided the Germany economy soon rises from recession and eastern Germany starts on the path of self-sustaining growth, the costs of unemploy-



Enjoying frugalities in Hamburg: the high standard of living is financed by ever fewer wage earners (Picture: Tony Andrews)

ment benefits will return to the manageable.

The long-term problem remains how to deal with the demographic change.

On that score, Mr Günter Rexrodt, the economics minister, can only appeal for a national debate.

As he points out, it is not just that the population is ageing, but that there is a growing

trend towards early retirement. So the shrinking workforce, caused by the low birthrate, is further reduced by early retirement, and the base for social contributions is smaller still.

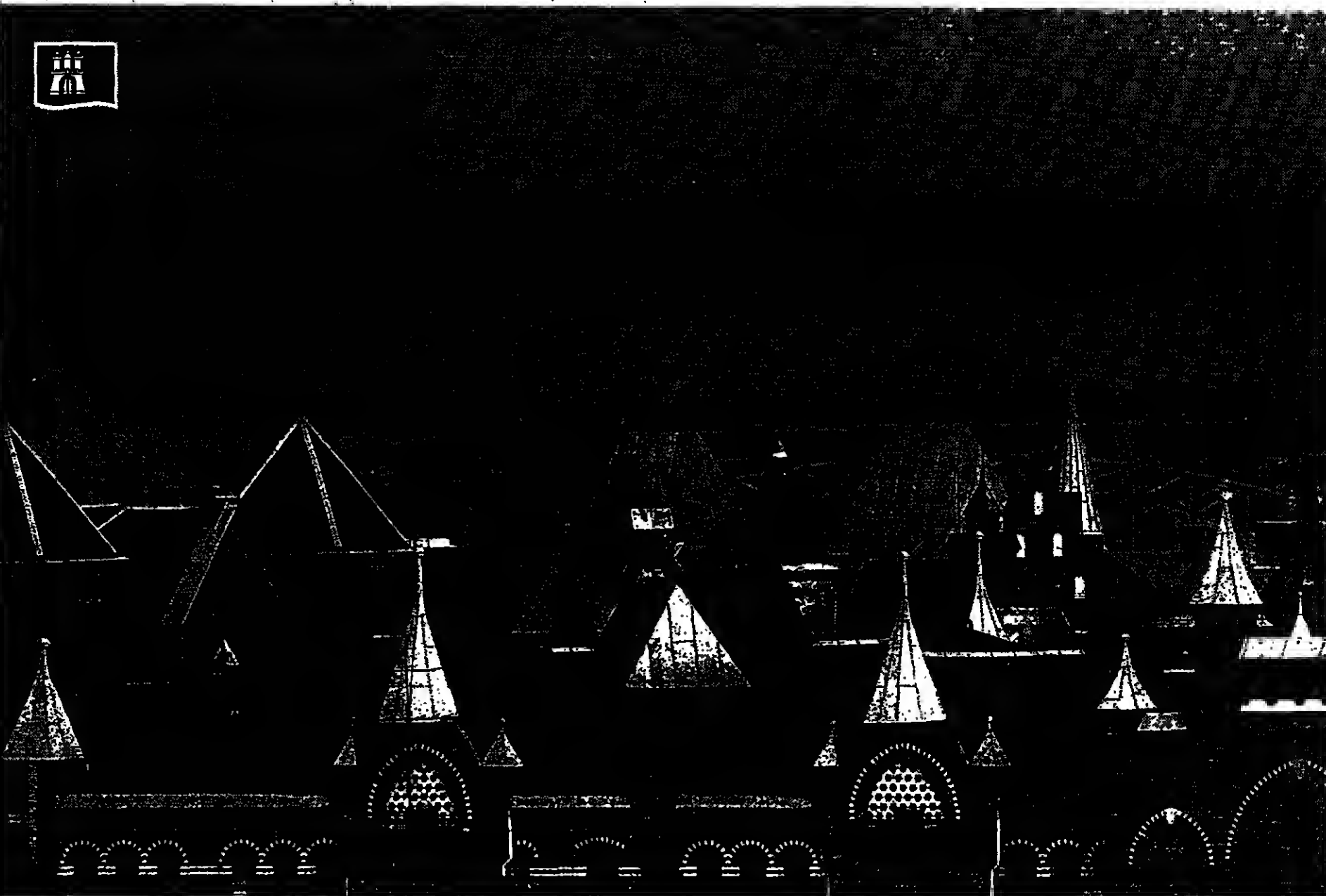
The present trend towards early retirement must be reversed in the medium- to long-term," he says. Quite apart from reducing the

able-bodied workforce, it results in "the inhumane exclusion of productive and willing older workers from the ranks of the economically active".

The pensions burden stretches into the future, Mr Rexrodt's paper says. "This question must be discussed now, and a decision reached on how in the long-term old age

care can be guaranteed, without overburdening the younger generation."

It is a question which will involve the length of a normal working life, promotion of larger families, expected migration, pension reforms, the development of the labour market, and future incomes. And it is a debate which is only just beginning.



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EUROGATE HAMBURG

WORKERS' PERKS

From spa visits to communion dresses

WHEN German industrialists gripe about high labour costs - as they do most of the time - they tend to harp about the unbearable burdens of statutory extras such as health and unemployment insurance and taxes. Government policy, they say, actively damages efforts to achieve full employment.

Mr Günther Rexrodt, economics minister, smartly whacked the ball back into the employers' court in his recent paper "Securing the Future of Germany's Economic Base". Yes, indeed, he noted, 84 per cent of gross pay in manufacturing industry was accounted for by ancillary costs. This

Employers tend to pay up rather than risk strikes

reduced the opportunities for pay policy to be more closely related to productivity.

But less than half of these extras were attributable to government: 55 per cent stemmed entirely from deals between employers and unions. Lack of strife and consensus between employers and unions was certainly an important factor in Germany's attractions, he wrote. "But when companies distribute more than they earn, in the long-term more is put at risk than social peace."

Mr Rexrodt was making a non-too-subtle allusion to a tendency among employers to pay up rather than risk strikes. Over the years basic pay deals have been padded and embellished with a bewildering array of extras and perks. Varying from industry to industry they include holiday bonuses, payments for education, recuperation and having babies. Travel subsidies or free transport to and from work are commonplace. Other benefits include interest-free loans, bonuses for 10, 15 and 20 years' service, heavily subsidised or free canteens and work clothing, paid-for visits to health spas, and

even, in the case of some Daimler-Benz workers, contributions to the cost of their children's first communion dresses and suits.

Typically, the cash components have been included in the calculations of annual pay increases. So, for example, a union deal on basic pay has usually been applied to the basic rate plus all the extras.

It was Robert Bosch, the arch-conservative electrical and electronics giant, which first tested the "social peace" when, in April, it told its workforce that this year's previously-agreed 3 per cent pay rise would apply only to the basic rate. Non-union workers had their pay cut 3 per cent. Further, it said, it wanted to cut other benefits.

Some 10,000 employees were bused into Stuttgart to protest as negotiations started with the workers' council. To no avail. Last month the company announced it had achieved its targeted DM180m savings on "voluntary" elements of pay. Economies on the basic pay rise arrangement brought total savings to DM250m. That still left the group's ancillary labour costs at around DM700m a year, but progress had been made.

At around the same time, the Mercedes-Benz management announced savings through similar cuts in "traditional" extras worth some DM200m a year. Elsewhere, negotiations grind painfully on, and there is no shortage of frustration on both sides. The head of one big engineering group, for example, where paint shop employees have long enjoyed the right to a free annual holiday in the mountain air, shakes his head. Under modern health and safety regulations, paint shops are among the healthiest places in a factory. "We've had it checked," he says. "For goodness' sake, the air in there is cleaner than in my office."

Christopher Parkes

GERMANY 12

The health service is ripe for financial surgery, says Ariane Genillard

On to the operating table

BY the year 2,000, one person in two in German hospitals is expected to be aged 60 or older. Today, 42 per cent of hospital patients are near or past retirement.

To finance health care for its ageing population, the German labour force will continue to face increasing social security payments. Payroll contributions to health insurance funds have steadily grown in the last 10 years, and equal nearly 7 per cent of gross earnings.

Shared equally between employees and employers, these surcharges are among the ancillary costs burdening German businesses and undermining their competitiveness. Keeping health costs under control is a key priority for the Bonn government as it attempts to safeguard Germany's manufacturing base.

Mr Horst Seehofer, the federal health minister, can claim considerable success in reducing spending since his new health care law took effect on January 1, 1993. By squeezing budgets for doctors and hospitals, the reforms have curbed the amount of drugs and treatment being prescribed. For the

first six months of the year, per capita health spending decreased by 2.7 per cent, after a 9 per cent increase last year.

But politicians and medical personnel now agree that further reforms are needed to solve the health service's structural weaknesses. A group of experts in the health ministry is studying how to improve efficiency. Without more reforms, it is claimed, financial cuts could lower the standard of treatment.

In a rare show of harmony,

Without more reforms, the quality of care will suffer, says officials

German political parties agreed to support the new law which took effect at the beginning of the year. Its reforms were directed mainly at the medical profession - the law limits their ability to prescribe drugs and treatments above the spending levels of 1992.

A series of penalties have also been introduced making doctors financially responsible for over-prescribing. Doctors'

associations must pay the cost of excess prescriptions up to a total of DM280m, which is said to equal 1 per cent of their combined annual fees. Moreover, hospitals which over-run their 1992 budgets will not receive subsidies and must incur debts at the banks.

The new budgetary limits had an immediate effect on spending. Per capita health spending has fallen 2.7 per cent in the first six months of the year. The sharpest drop affected drugs, with retail sales plunging by 21 per cent for the period.

As a result, the state-subsidised health insurance scheme is back in the black. Last year, the scheme, which offers nearly full coverage to 90 per cent of the population, recorded a DM93m loss. For the first six months of 1993, it achieved a healthy surplus of DM2.6m.

Mr Seehofer was also trying to influence the public's behaviour. Germans spend more on drugs and treatment than any other European people except the French. "A patient never wanted to leave a surgery without a prescription. Doctors

took advantage of this to over-prescribe. This has now changed," says Mr Frank Montgomery, from the independent Marburger association of doctors. "We have succeeded in changing the behaviour of everyone involved in the health care system," claims Mr Seehofer.

However, the reforms have horrified health workers. According to the federal association of pharmacists, 20,000 jobs are threatened by the new law. Doctors complain that their earnings have been hit by the ceiling on their fees.

The biggest impact has arguably been on the established drug houses whose sales fell by 11 per cent in the first six months of the year. By contrast, sales of cheap generic drugs rose 12 per cent for the period.

Both health workers and the pharmaceutical industry say such developments will harm their ability to prescribe state-of-the-art medicine.

Doctors, who face a moratorium on the opening of new medical practices (except in understaffed areas), claim the law is too restrictive. The mor-



In a Berlin children's clinic doctors will be penalised for over-prescribing

(Picture: Ulfrike Prouss)

atorium was introduced to slow the rapid growth in the number of Germany's doctors - over the last 12 years it doubled to the present 360,000. The pharmaceutical industry, meanwhile, warns that lower earnings will hit research budgets.

Mr Michael Hansen, of the Boston Consulting group, says that "reforms cannot work in the long-term if they are against the medical profession. There is growing awareness that better management must be introduced in the system. And doctors have to see benefits in the package," he says.

However, the present system of care is riddled with duplication and red tape. Waste stems primarily from the system of payment, under which each medical provider is paid for the service provided to the purchaser. In practice, this means that doctors and hospitals have a financial interest in duplicating services.

Independent medical bodies have suggested that physicians should be allowed to oversee the entire cost of a patient's treatment. Fees could also be charged not on a service basis but for the treatment accorded to each patient. An average fee

per member of the national health care system would be established, so that patients requiring little treatment would indirectly subsidise those needing expensive care.

There is also a need for a better flow of information within the service, to ensure the avoidance of duplication in examinations and diagnosis of patients' ailments. This implies closer links between hospitals and health services in the community. In some regions, local doctors' associations have introduced a patient card, which gives doctors private access to patients' medical his-

tory. In order to win parliamentary approval - the opposition Social Democrats control the Bundesrat (the upper chamber) - the government's reforms will need the support of all German parties.

Germany will also have to tackle the looming problem of an ageing population.

Recent efforts by the Bonn government to introduce new social security payments to finance residential care for the elderly and chronically ill have run into difficulties.

Social Democrats oppose the idea that employers should meet some of the cost of additional surcharges out of employees' pay. Employers' associations for their part oppose a move which would further increase their costs.

The new residential care plan would save money for hospitals. Ms Ingrid Hasselhiatt-Diedrich, of the Hartmann doctors' association, the largest professional body of its kind, says that a quarter of elderly patients whose care in hospital is covered by their insurance contributions, would not have to be in hospital at all if alternative care was available for them in their own homes.

But conflicting economic and political interests have so far blocked the new residential care plan. It remains to be seen if there is still enough political will to break the logjam.

Theatres are closing and orchestras slimming, writes Patricia Naatz

When the patron backs out

THE closure last month of two of Berlin's most famous theatres, the Schiller and the Schlosspark, provided a grim illustration of how public funding for the arts is under pressure as a result of the recession.

The Bonn government and the federal Länder say they want to preserve a wide and varied range of cultural activities. But because of the strain on their finances, they are having difficulty living up to their ambitions.

In contrast to Britain and the US, where the arts are financed by a mixture of subsidies and private sponsoring, German theatres are largely publicly supported. Ticket sales yield only about 15 per cent of their income, and the rest comes from the public purse, overall a total of some DM4bn for theatres, operas and orchestras.

At federal government level, the Interior Ministry is responsible for cultural affairs. It promotes only cultural projects of

national importance - such as the annual Bayreuth festival. The Länder and local authorities account for the lion's share of public funding.

The Interior Ministry's culture budget is to be slashed next year to barely half its current level - down from DM1.3bn to DM700m in 1994. If the Bundestag passes the draft budget - and it has been sharply criticised from both sides of the house - it will threaten a host of projects, above all in eastern Germany.

Under the unification treaty, the eastern states were to receive cultural aid of DM650m a year from 1990-94, to tide them over their immediate financial problems. The Finance Ministry has axed that money from the 1994 budget in its latest round of drastic savings measures, and a decision is still pending on whether it should be reinstated.

Also open is the question of which institutions will be faced by cuts in 1995. Among them

could be the German Music Council, which supports young musicians and sponsors national concerts and concert tours. The Bach archives in Leipzig, the Society for the Promotion of the German Language, the Berlin Festival, and the Ruhr festival could all be affected, along with film promotion activities, and the protection of monuments.

One thing is certain: sweeping cuts are on the way. But one area may be spared. The Bayreuth festival, the Nuremberg national museum and Munich's German museum are all thought to be safe: they are all prestigious projects in Bavaria, the home state of Mr Theo Waigel, the Finance Minister in Bonn.

At the state and local level,

most cities' cultural facilities have accepted cuts. Art galleries have been unable to obtain new pictures, and have had to put on fewer exhibitions. Some municipal theatres have been forced to close for weeks at a time, and some

Unlike UK theatres, which have private and public backing, most German theatres are publicly funded

orchestras, such as the Hesse state radio light orchestra and the Berlin symphony orchestra, have disbanded.

The directors of the big opera houses have tried to form a joint plan to face the crisis. Mr Götz Friedrich, director-general of the Berlin opera, said: "Opera is no luxury. It is

an integral part of the cultural landscape."

The end result of the directors' meeting, however, was very modest - an agreement between the individual opera houses setting common salaries for singers, thereby ending

competition between them.

The federation of German theatres has argued that no other country has such a variety of theatres and operas as Germany. They insist that they should go on being publicly financed, because of the vital contribution they make to the "social and cultural fabric" of

their towns and cities. But in one way they do want to change their public status: as far as their employees are concerned.

There are seven different agreements on wages and working conditions in German theatres, with five different trade unions. Because they are in the public sector, many employees enjoy the statutory privileges of public servants. The theatre federation wants its members to become independent enterprises, and then to have a single wage deal for all employees.

The one other way in which they hope to save money is in agreeing to more co-productions, or exchange of productions between several theatres. So how will a big opera

house react to the financial squeeze? At the Frankfurt opera, the city's plans will reduce overall cultural spending by DM50m next year. Job cuts are inevitable. Personnel and administration costs account for almost 85 per cent of DM65m total spending. The remaining 15 per cent are earmarked for artistic purposes, such as guest stars.

Mr Martin Steinhoff, the managing director, says that as many as 350 of the 1,000 employees may have to be dismissed. This means that of 135 musicians today, barely 80 will be kept on. It means that presenting a Wagner opera in future would be out of the question, because the opera choir would be too small. Repertory theatre would become impossible, because there would not be enough stage hands to raise and dismantle the sets every evening.

The upshot is that only much more limited productions of short duration and narrow scope remain feasible,

and then only with guest performers, and not with a resident ensemble.

The wholesale privatisation of cultural facilities is not seriously under discussion. As revenues from ticket sales account for such a minor share of theatre and museum budgets, the gap is considered too wide to fill.

In Berlin, the city's cultural department quite simply ordered the Schiller and Schlosspark theatres to survive without subsidies. They had long been criticised for poor management and boring performances. With a budget of DM41m, they were the highest-subsidised theatres in the country - a daily subsidy per seat of DM100.

The decision to close them was greeted in the theatre world as "an artistic assassination attempt". There were appeals to President Richard von Weizsäcker, the former mayor of Berlin, to save them. To no avail. The question is, where will the axe fall next?

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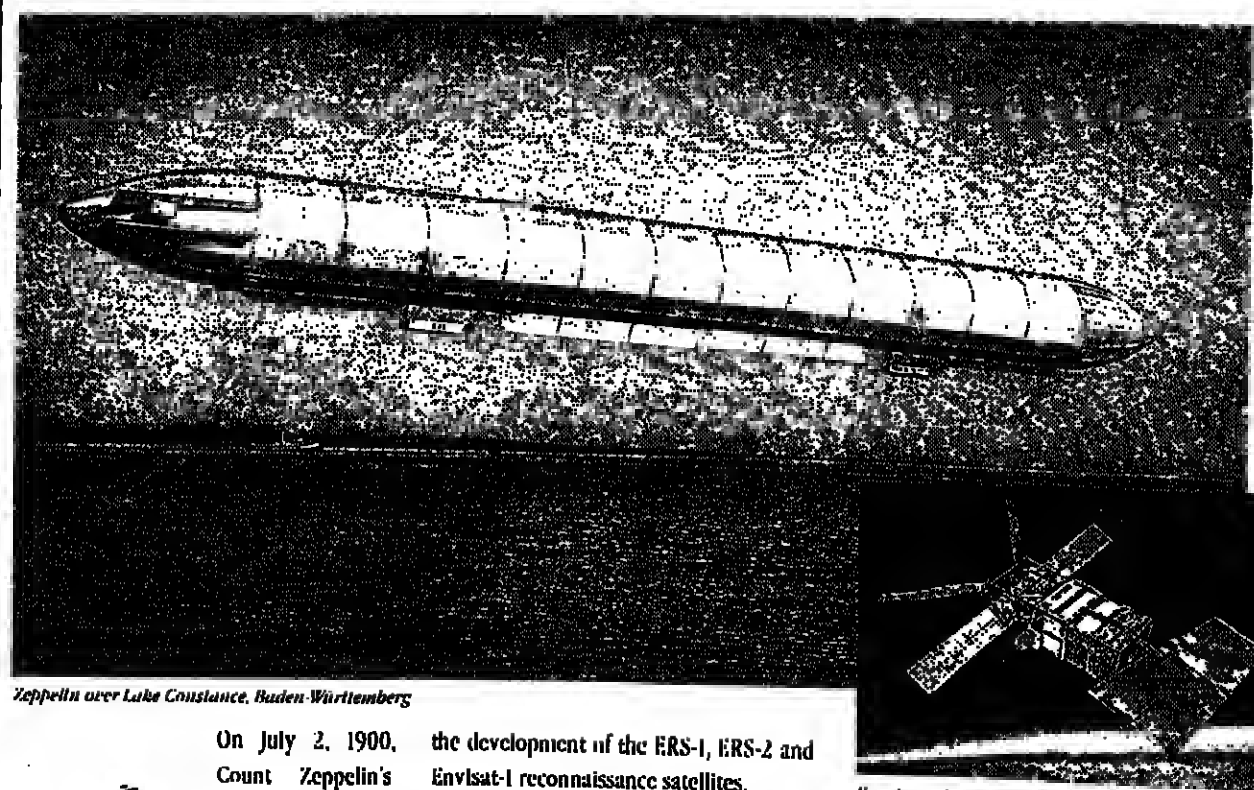
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The rise of technology on Lake Constance.



Zeppelin over Lake Constance, Baden-Württemberg

European Remote Satellite ERS-1

On July 2, 1990, Count Zeppelin's invention ascended for the first time into the skies over Lake Constance. The

event marked the beginning of a much anticipated dream: man's scheduled exploitation of the skies.

Airships have long since been replaced by aircraft, even on Lake Constance, home of the Dornier 228 and 328. Today, the aircraft industry headquartered there is making a considerable contribution to Europe's large scale space programs, especially in

the development of the ERS-1, ERS-2 and Envisat-1 reconnaissance satellites.

The ascent of the zeppelin marked the start of a new century and a new direction of industrialization, then mainly characterized by the motor car. Invented in Baden-Württemberg by Gottlieb Daimler and Carl Benz, the automobile did much to bring about change in the industrialized world.

These are but two examples of the technological advances for which Baden-Württemberg has become known. Today the region is regarded as the premier research center in Germany.

Baden-Württemberg. The German Southwest. The better location.

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